Institutional Loan Program Reference Document (V. 1.0)

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Document Overview:

The purpose of this document is to provide an all-encompassing (and evolving) reference document that can be used when creating, reviewing, or updating an institutional loan program and/or promissory note(s). This document will combine institutional knowledge from members of higher education, industry specialists, and COHEAO members and board members. Information in this document should not be considered as legal advice or direct recommendation on what an institution should or should not do when creating or updating a loan program. COHEAO recommends that users of this document work directly with their institution's legal counsel for review and approval before implementing any loan program.

Reasons to create Institutional Loan Program

- Student's at your institution are not eligible for credit based gap funding
- Better manage attendance by using an Institutional Fund to impact affordability
- Student's need additional financial assistance due to unexpected costs
- Increase retention and completion rates via targeted application of funds.
- The elimination of the Perkins program has left students without any alternative and a funding gap remains
- Funds have been donated, or fund-raised, with the purpose of fiscally helping out students

Things to Think About When Starting an Institutional Loan Program:

Program Exploration and Creation

1. Determine whether you have the resources to create, market, and manage a loan program
    a. In some cases, providing student's with additional resources like a preferred lender list, links to scholarships, etc. may be your institution's best choice.
2. If you plan to move forward with creating a loan, perform your due diligence to gather data on the anticipated need and projected usage (amount and number of students who need the loan vs. what you will be able to lend)
3. Determine if the loan fund is to be revolving closed.
    a. If revolving, determine the percentage of the fund will be lent to ensure the fund remains sustainable.
    b. If you intend to generate revenue from the loan, work with your finance group to forecast out revenue.
4. Perform research and work with state higher education authority to determine if your school needs a lending license in-order to lend.
5. Decide and plan out how you will market the loan program.
    a. Website marketing, post on external sites, print marketing like flyers, handouts, comparisons, etc.
6. What will the funding levels/amounts be? (Use data to make this decision)
    a. Set a lifetime limit/no limit on how much a student can borrow.
    b. Determine the disbursement schedule and number of disbursements

7. Determine and set the loan signature requirements (electronic, wet signature, in person signing, etc.)
8. Ensure that your promissory note is reviewed and approved by your school's legal counsel/general counsel.
9. If possible, try and have as few individual institutional loan programs as possible. If you can make one program work, and have robust terms and conditions, this will be much easier to manage in the future.
10. Try to anticipate how this loan fund will work with other future loan funds. If you will have multiple loan funds, make sure they are distinguishable from each other.

Program Funding

1. School funding
2. Third party lender
3. School managed trust fund
4. Affiliated entity via the alumni office (Donors)
5. Work with your state, or even other schools, to develop a fund

Eligibility

1. Establish and document the eligibility criteria for the loan such as:
    a. FAFSA, EFC, need, citizenship, cosigner, debt to income, minimum income, credit score, age requirements, etc.
    b. Determine if there are things that automatically disqualify a student such as
2. Determine if there are different eligibility requirements for student subsets like international students, etc.

Processing

1. Create an extensive and well documented entrance and exit counseling process.
2. Create a reminder process that notifies students of their loan borrowing and responsibilities for when they separate from the university
3. If possible include, as part of this process, an in person discussion prior to lending.

Fees and Repayment

1. Determine the available payoff period(s) and the criteria for who falls into what repayment term (based on balance, etc.).
    a. Where possible, ensure the loan term is as short as possible. A term of 30 years means your school will have to either provide internal resources to service and collect on the loan or your school will be paying servicing costs for 30 years.
2. Set the types of payment plans that will be available such as Interest only, graduated, level payments etc..
3. Determine the billing frequency of the loan (biweekly, monthly, quarterly, etc.).
4. Set minimum monthly payment on the loan. It is recommended that you do something like, $50 minimum monthly payment or monthly accrued interest, whichever is greater.
5. To encourage repayment, consider incentives such as rate reductions, principal reductions, in-school deferment, and cosigner release.
6. Set the loan origination fee, interest rate, and fee types (late fee, NSF fee, etc.)

   a. Determine when and how fees accrue.
      i. Set amounts and rates.
   b. Determine if loan is subsidized while in school.
   c. Determine whether the interest will capitalize.

Loan Provisions

1. It is recommended that in areas where the institution will not offer some provision, that it be included in the promissory note even if it is not applicable or offered.
2. Indicate whether the loan is eligible for any type of cancelation (disability, service related, industry related, death, etc.).
3. Set the loan grace period length and detail when it begins and ends.
   a. Keep grace terms close to Direct (6 months) or Perkins (9 months). Grace terms outside of this length may result in student's forgetting that the loan is separate from their other loans.
4. Include any deferment and/or forbearance provisions (for what reasons), or any other term/payment modifications.

Terms and Conditions

5. Determine if there are specific disclosures that need to be included (state specific, legal, etc.)
6. Determine the specific language that should be included in the terms and conditions section of the promissory note.
   a. Financial Responsibility Agreement (FRA) type language (NACUBO's FRA is a good resource), collections messaging, Regulation Z, etc.
7. Indicate whether the student is responsible for updating their contact information as it changes.
   a. Ensure students can easily communicate (location, phone number, etc.) if they are having issues during repayment.

Servicing

1. Investigate and research third party servicing options and fees. Forecast out the expense of your loans based on expected repayment terms.
2. If the loan will be serviced by a third party, ensure you include the third-party information prior to lending the loan if possible.
3. If you plan to service the loan in-house, determine staffing needs and measures of success.

Delinquency

4. Determine the impacts of delinquency such as the ability to get transcripts, diplomas, or re-enroll.
5. Prior to the loan being sent to a collection agency determine the credit reporting requirements and whether you have the means to credit report if you are managing the loan in-house.
6. Determine the collections flow and when a loan will move from in-house/servicer to a collection agency due to non-payment.
   a. Determine the collection fee amounts, how they will be paid and remitted, and whether they will be charged back to the student or absorbed by the fund.
   b. Determine if your agencies will credit report and under what conditions.
   c. Determine and set the aging and write off policy for the loan.

    i. Include the policy and process for writing a balance off and whether the loan is reinstated or due in full if someone begins repayment and/or wants transcripts, diploma, etc.

7. Determine how small balance write-offs will be handled, and what the threshold will be.
8. Determine and document your settlement policy.
9. In all cases, determine who has authorization to agree to what.

Risk/Performance Factors

An Institutional loan is not back stopped by the Federal Government or fully regulated by the Department of Education, nor is an Institutional loan exempt from the statute of limitations like many government back loans. Schools should review their states statutes of limitations, game plan differing default scenarios, and perhaps even changing legislation that may impact performance/repayment rates. Additional factors may include graduation rates, educational attainment, employment opportunities, and student population characteristics. A well-managed program may have higher default rates than traditional government back student loans, yet still be impactful and sustainable over time.

Example

The University of Wisconsin-Madison campus, a member of COHEAO, recently rolled out an Institutional Loan program called the Teacher Pledge. A brief overview of the program along with videos can be found at https://tec.education.wisc.edu/teacher-pledge/ .

Helpful Resources and Finding Assistance

COHEAO can connect you with topical expertise in loan servicing, legal assistance, collections along with colleges/universities that have had long term success with their Institutional Loan programs. Contact the Coalition of Higher Education Assistance Organizations at COHEAO 777 Sixth Street NW, Suite 510 Washington, DC 20001-4498 (202)349-2303. Feel free to contact COHEAO President Lori Hartung at lori.hartung@e-hps.com or COHEAO Executive Director Robert Moran rmoran@bosepublicaffairs.com for assistance.

Timeline / Rollout Concept