



Borrower Benefits in a Changing Environment

NYSFAAA
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What do you want to know?



- **Why have lenders offered borrower benefits?**
- **What have been the differences between nonprofit and for-profit lenders?**
- **What types of benefits have been offered?**
- **What factors have lenders considered when designing benefits programs?**
- *MORE . . .*

More Questions . . .



- **Why have lenders started announcing changes to their borrower benefit programs?**
- **What will happen to the benefits on existing loans that have already been disbursed?**
- **How do we advise students/borrowers moving forward about borrower benefits?**
- **Other questions . . .**

Why Lenders Have Offered Benefits



- **Increase volume growth and borrower retention**
- **Provide innovation in marketplace**
- **Respond to competitive pressures**
- **Increase access and affordability of education loan funding for borrowers**
- **Encourage positive payment behavior**

Differences in Benefits

Nonprofit vs. For-profit



Nonprofit Loan Providers

- Tended to be the first to offer borrower benefits
- Benefits have tended to be more generous
- Don't need to satisfy financial interests of stockholders

For-Profit Loan Providers

- Responded with benefits to remain competitive
- Must consider tradeoff between profits for shareholders vs. reduced costs for borrowers

Types of Borrower Benefits

A Quick Summary



- **Paydown or rebate of loan fees**
- **Interest rate reduction**
- **Credit to loan principal**
- **Cash rebate to borrower**
- **Credit to accrued interest**
- **Payment relief period**
 - **Delay in start of repayment**
 - **Periodic free monthly payments**
 - **Waiver of final payments**
- **Monthly credit to loan principal**

Factors Involved in Deciding What Benefits to Offer



Sources of revenue and costs

- **Excess margin on different student loan types**
- **Customer Deposits**
- **Other Business Lines**
- **Subsidies**
- **Investments**
- **Tax Structure**

College Cost Reduction and Access Act (P. L. 110-84)



Changes Affecting Lender Finances

- **Reduction in Special Allowance**
- **Increase in lender fee**
- **Reduction in lender insurance**
- **Creation of Parent PLUS auction**

What is Special Allowance?



- **Funds paid to holders of eligible FFEL loans**
- **Intended to compensate loan holders for the difference between the interest rate borrowers are paying and the current market rate**
- **Lenders receive special allowance payments when market rate exceeds rate paid by borrowers**
- **Calculated as a percentage of the average unpaid principal balance of a loan, including capitalized interest**
- **Percentage amount varies based on when eligible loan was first disbursed**

Reduced Special Allowance (SAP)



- **Effective for all FFEL loans first disbursed on or after October 1, 2007**
- **Changes affecting loans held by eligible not-for-profit lenders:**
 - **Reduces SAP by 0.40% on Stafford and FCL**
 - **Reduces SAP by 0.70% on PLUS (including Grad PLUS)**
- **Changes affecting loans held by all other lenders:**
 - **Reduces SAP by 0.55% on Stafford and FCL**
 - **Reduces SAP by 0.85% on PLUS (including Grad PLUS)**
- **These are in addition to changes mandated by HERA**

Effect of SAP Reduction By Loan Type and Lender Type



Loan Type	Special Allowance Payments (SAP)		
	<u>Current SAP</u> <i>All loan holders</i> ¹ <i>First disbursed on/after 1/1/2000</i> ² <i>Application received on/after 1/1/2000</i>	<u>New SAP</u> <i>Eligible not-for-profit loan holders</i>	<u>New SAP</u> <i>All other loan holders</i>
Stafford <i>In-school</i>	CP + 1.74% ¹	CP + 1.34%	CP + 1.19%
Stafford <i>In repayment</i>	CP + 2.34% ¹	CP + 1.94%	CP + 1.79%
PLUS	CP + 2.64% ¹	CP + 1.94%	CP + 1.79%
Consolidation	CP + 2.64% ²	CP + 2.24%	CP + 2.09%

(CP = Commercial Paper, was 5.39% for quarter ending 9/30/07)

Lender Fee Is Doubled



- **Effective for FFEL loans first disbursed on or after 10/1/07**
- **Lender must pay this fee to ED**
- **Fee increases from 0.5% to 1.0% of loan amount disbursed**
- **Fee is in addition to fees paid by borrowers (i.e., Origination Fee, Federal Default Fee)**
- **Fee cannot be collected from borrower**

Reduced Lender Insurance



- **Effective for loans first disbursed on or after October 1, 2012**
- **Insurance is reduced from 97% to 95%**
- **Reduces amount loan holders receive on default and loan discharge claims**
- **Does not apply to lenders of last resort**

Estimated Lender Impact

Reduction in Yield (%) for Nonprofit



Nonprofit Lender	Stafford	PLUS	FCL	Weighted Average
SAP Reduction	0.40%	0.70%	0.40%	0.49%
Lender Fee Increase	0.10%	0.10%	0.08%	0.10%
Default Insurance Decrease	0.02%	0.02%	0.02%	0.02%
TOTAL	0.52%	0.82%	0.50%	0.61%

Estimated Lender Impact

Reduction in Loan Value (%) for Nonprofit



Nonprofit Lender	Stafford	PLUS	FCL	Weighted Average
SAP Reduction	1.10%	1.93%	2.48%	1.62%
Lender Fee Increase	0.50%	0.50%	0.50%	0.50%
Default Insurance Decrease	0.20%	0.18%	0.18%	0.19%
TOTAL	1.80%	2.61%	3.16%	2.31%

Estimated Lender Impact

Decline in Annual Revenue (000's) for Nonprofit



Nonprofit Lender	Stafford	PLUS	FCL	Total
Expected Annual Loan Volume	\$650,000	\$400,000	\$250,000	\$1,300,000
SAP Reduction	\$2,600	\$2,800	\$1,000	\$6,400
Lender Fee Increase	\$3,250	\$2,000	\$1,250	\$6,500
Default Insurance Decrease	\$130	\$80	\$50	\$260
TOTAL	\$5,980	\$4,880	\$2,300	\$13,160

Margin Reductions vs. Borrower Benefits



Nonprofit Lender	Stafford	PLUS	FCL	Weighted Average
Cost of Borrower Benefits <i>(includes Stafford Origination Fee Discount)</i>	0.77%	0.79%	0.25%	0.68%
Cost of P.L. 110-84	0.52%	0.82%	0.50%	0.61%
Difference	0.25%	-0.03%	-0.25%	0.07%

Likely Impacts to Borrowers



- **Origination fee may not be paid by lenders**
- **Federal Default fee may not be covered by guaranty agencies/lenders**
- **Reduction or elimination of borrower benefits, particularly on-time payment incentives**
- **Fewer FFEL lenders, particularly those offering Federal Consolidation Loans**

How should we counsel students moving forward?



- **What can or should we be saying to students about borrower benefits in this changing environment?**
- **How do we respond to student questions about these changes?**
- **How will the recent AG inquiries and legislative changes (e.g., SLATE Act) affect how we counsel students about these issues?**
- **What's next?**



Thank you!

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