Gail McLarnon: With that, let's get started with session 32. This is student loan consumerism and my name is Gail McLarnon. I work at the Office of Postsecondary Education at the Department in Washington D.C. Been with the Department for about 15 years and generally my area of expertise is student loans.

The first thing I want to go over with you is what we'll be discussing today during this presentation. First, we're going to cover private education loan disclosures and requirements that were subject to regulations by the Department of Education. That's going to cover a variety of issues associated with preferred lender arrangements. That's going to include the preferred lender arrangement disclosures and disclosures around a preferred lender arrangement list as well.

We'll go over the Code of Conduct. This is a new code that is required by statute for you to participate in the Title IV Loan Programs as well as a requirement of participating in a preferred lender arrangement. And we'll also talk about private education loan disclosures generally and the Private Loan Self Certification Form.

We'll also talk about disclosures and requirements that were subject to regulation by the Federal Reserve Board. We'll talk about the purpose of the Truth in Lending Act and the changes that were mandated to that act by the HEOA. That's the Higher Education Opportunity Act. We'll talk about private education loan disclosures that have to be made by private education lenders in accordance with the Federal Reserve Board's regulations.

And we'll talk about the Self-Certification Form for private education loans. I just mentioned that on the prior slide. This is a form that was developed jointly by the Department of Education and the Federal Reserve Board so already you can begin to see some of the similarities between their requirements that we're talking about in terms of regulation between the Department and the Federal Reserve Board as they relate to private education loans.

The passage of the Higher Education Opportunity Act, HEOA, was the impetuous for all of these new student loan disclosure requirements. The HEOA also reauthorized the Higher Education Act, as you can see that took place in 2008. If you're a student of Federal Student Aid, you know that the last time the Higher Education Act was reauthorized prior to 2008 was 1998 so that was a 10 year period that we waited. Generally we see a five year period where an act is authorized and then every five years

Congress is supposed to reauthorize. Congress took ten years so over that period of time, we saw Congress continually fold into it every iteration of the Higher Education Act they were working on at the time, any issue that they felt needed to be addressed and Student Loan Consumerism was one of those issues that came along during that ten year period.

I do have a link here to our Dear Colleague letter that covers all of the provisions in the HEOA. There's a short summary that's associated with every provision in the act. As you might imagine, it's a Dear Colleague letter that's over a couple of hundred pages long and that is because the HEA itself was a huge piece of legislation. But I do recommend that you take advantage of this Dear Colleague letter, it's a wonderful resource document for you to get a very pithy summary of all of any provision in the HEOA in which you might be interested in.

I just mentioned HEOA reauthorized the Higher Education Act, established new institution based disclosures for both Title IV and private education loans. The HEOA amended both the Higher Education Act and the TILA, the Truth in Lending Act as we call it. And every time you see this abbreviation T-I-L-A, that is going to mean the Truth in Lending Act. We'll refer to it as TILA as we go through the conversation.

So the HEOA amended the TILA and established private education loan disclosures and amended both the Higher Education Act and the TILA to prohibit certain lending practices. This isn't sort of a first for the Department. By amending both the HEA and the TILA, Congress set up joint oversight of private education loans between the Department of Education and between the Federal Reserve Board.

The majority of the responsibility for private education loans does lie with the Federal Reserve Board, but the Department also has some jurisdiction now over private education loans. The Department and the Federal Reserve Board have worked together throughout the implementation process and we continue to work together. When we get a question that neither one of us can answer, we'll put our heads together and try to come up with the appropriate answer.

Another key development in the evolution of institution based disclosures was, of course, the elimination of the FFEL Program as of June 30th of 2010 and that came along, of course, with the passage of the Health Care and Education Reconciliation Act of

2010, the HCERA as we call it. That was just in the spring of this year. This was an act and I'm sure that everybody followed the news, mostly focused on healthcare, but this was a bill that realized the Obama Administration's two most ambitious goals, one around health care, one around higher education. Of course, health care we know all about. Higher education, the goal here was the elimination of the FFEL program among other things. But that was the real focus because that was such a huge saver in terms of government spending.

With the elimination of FFEL also came the elimination of many of the institution based disclosures that were related to participation in a preferred lender arrangement with FFEL lenders. So when we look at these disclosures now in terms of institution of higher education responsibilities, we're talking almost exclusively about private education loans even though as the statute was written originally and as the Department developed, proposed and final rules around these disclosures they applied to FFEL as well. So going forward, we're thinking private education loans only.

I call this my why slide. The new HEOA disclosure requirements are numerous. Why do Congress feel the need to legislate in this way? Well, remember, I just mentioned, we had reauthorization in 1998 and in the intervening years lots of things were happening in the higher education community.

And one of those things, if you recall, I want to say it's almost four or five years ago now, were the investigations that were taking place by various entities that Senate Health Committee was investigating relationships between Financial Aid Officers and the lenders that they were doing business with. Then Attorney General Andrew Cuomo also conducted his own investigation of these relationships.

And, of course, Congress took note of these investigations and decided to go ahead and address these sorts of alleged inappropriate activities and by that I mean there were offers of trips and preferred lender list placements, things of that nature that Congress felt were inappropriate and that needed to be addressed in the statute.

The other reason that Congress took action was because of the concern about the borrower. The borrower was actually the entity that got lost in the shuffle here. It became all about institutions and their lenders and not about the borrower. So the point of these disclosures really were to increase the information a borrower

receives before he or she receives the loan, Title IV at the time and also private education loans so an informed student loan borrower. These disclosures seek to ensure that the borrower can choose his or her lender. That's a statutory entitlement, borrower choice of lender and what we were seeing a few years ago was a borrower being steered toward certain lenders without being given a choice about who to borrow from.

Another reason for these disclosures is transparency. We want to have transparency in the process. We want the borrower to be aware of the terms and conditions of his or her loans. We want the borrower especially to be aware of the existence and his or her possible eligibility for Title IV loans so that before a borrower goes after a private loan, they know that there's Title IV out there and that they may be eligible for it. You'll see those kinds of disclosures again and again as we walk through these slides.

Also high ethical standards in the student lending process. Again, this harks back to what were alleged inappropriate activities between Financial Aid Officers and their lenders. And finally a selection of preferred lender based on the best interest of the borrower, not the best interest of the school, not the best interest of the lender, the best interest of the borrower, what terms and conditions are lenders going to offer your borrower that are going to benefit the borrower so that really is what this is all about, why these disclosures were included in the Higher Education Act.

Let's take a look at the regulatory framework. It mirrors the statutory framework to a great degree. The Department of Education regulates required disclosures on Title IV HEOA loans and private education loans. We opened up a whole new section of the regulations. All of our new regulations on student loan consumerism are on 34 CFR 601. You won't find them in the FFEL section or the direct loan section, they have their own section.

The Federal Reserve Board regulated required disclosures on private education loans as well and they also define certain key terms that we both use, both agencies use. And finally, I think I mentioned earlier, we developed jointly the private loan Self-Certification Form. So again, we see Congress providing for increased transparency by providing for joint oversight on private education loans through the Department and through the Federal Reserve Board Regulatory Authority. So the regulations, keep in mind the regulations of both of our agencies, both the Department

of Education and the Federal Reserve Board, you have to be taken into account in terms of compliance.

In terms of the department's activities around implementing rules for a student loan consumerism, you know when any changes are made to Title IV of the Higher Education Act, the Department is required to negotiate those changes. So we immediately, given the size of the bill, we actually formed five teams and then after finishing those negotiations, formed two more teams. So a few inches of federal update today I think you heard Dan Madzelan mention we were busy, busy, busy and a lot of it had to do with a lot of the provisions that were included in the HEOA.

So here you see this is a little sort of timeline for our rules on student loan consumerism. We did reach consensus on those rules, that is something that the Department strives to do. I was very proud to be the Federal Negotiator for that set of regulations. We published the final rules last October and they were effective this past July.

The Federal Reserve Board is not required to negotiate their proposed rules. They were quite taken aback by the process that we have to follow. As you can see from this slide, the Board published final rules on August 14th with compliance mandatory on or after February 14th of 2010. Their final rules replaced prior special rules for student credit extensions and Regulation Z. Interestingly the Federal Reserve Board names their regulations after letters of the alphabet. So in terms of credit extensions think of Z, that's where all the Board's regulations are.

I have a link to their regulations. It's very important if you're an Institution of Higher Education and you make loans to your student, you are a subject to the Board's rules so I would highly recommend that you read the final regulations, read the preamble. I make the same recommendations for the Department's rules as well. I'm not sure how many people can actually read through a final regulation, but it contains a lot of information, a lot of very specific detail about what you need to do as a private education lender to comply with these new rules.

Okay, let's take a look at the Department of Education's rules in more detail. We'll start with the Department and then the back end of this presentation we will talk in detail about the Federal Reserve Board's rules. So let's start with the Department of Education rules that impact private education loans by studying with some of the key terms that are contained in this new section 34 CFR 601.

We're gonna start with the covered institution and that is defined as an institution of high education as that terms is defined in section 102 of the HEOA that receives any federal funding. So in terms of a covered institution and this includes any institution of higher education that accepts any type of federal funding, not just institutions receive Title IV funding or assistance. So this is a first.

Generally our rules deal with institutions that participate in our programs. Even if you don't participate in our programs but receive $1.00 of federal funding for any other reason you are subject to these rules.

An institution affiliated organization is also required by regulation and statute to comply with these regulations and that is a term defined as an entity directly or indirectly related to a covered institution that recommends, promotes or endorses education loans.

Lender, now that is defined as an eligible FFEL lender, the Department of Education, a private education lender as that term is defined in the TILA or any person engaged in the business of securing, making or extending education loans on behalf of a lender. This is a term that was not negotiated by team two as we call the school base loan team. This was a team one issue.

We had five teams as I mentioned. Two devoted to loans. Team one looked only at lender based loan issues and they were the team responsible for this particular definition. It does mirror the statutory language. The term private education language was a term not subject to regulation because that is a term that's defined and contained in the Truth in Lending Act and the Federal Reserve Board does not have to negotiate their regulations.

So this is a cross referenced definition into the Higher Education Act and we'll talk about this definition in more detail as we go through the presentation. But I do want to emphasize and I think I mentioned this a little bit earlier, private education lenders do include institution of high education and always have. If you're an institution of higher education that makes loans to your students, you have been considered a private education lender in the eyes of the Federal Reserve Board and their regulations as well.

Again, a good example of the way the statute and the regulations require joint implementation between these agencies and joint compliance among institution of higher education.

The term private education loan is also defined in the Truth in Lending Act and was not subject to negotiations and that is a non Title IV provided by a private education lender expressly for post-secondary educational expenses.

A private education loan does not include extensions of credit under an open-end credit plan. Think credit cards, nor does it include credit secured by real estate. Think mortgages in those cases.

Okay, in regulating the definition of private education loan, the Federal Reserve Board interpreted the statutory term to include certain exemptions so under the final rules published by the board, the term private education loan does not include extensions of credit in which the institution of higher education – and these are limited to institution of higher education, is the lender and that our 90 days are extended for 90 days or less. These generally mean emergency loans that your institution makes; even if you charge interest and fees and that is fine, but they have to be an extension of credit 90 days or less. These extensions are not subject to the Board’s new rules.

Another exemption is extensions of credit on which interest will not be applied to a credit balance and the term is one year or less even if payable in more than four payments. Generally this is referring to your institutional billing plans. The Federal Reserve Board received your comments on their proposed rules just like you comment on the Department’s proposed rules and were persuaded by the comments to exempt these two types of extensions of credit made by institutions of higher education. And then lastly the education loan as defined as a FFEL Loan, a direct loan or a private education loan.

Okay, moving on to the next slide, preferred lender arrangement. This was a definition that was quite hotly debated during negotiated rule making and this was in large part because the FFEL Program still existed at the time. I don’t know if we were to negotiate these rules today if we would have had such a heated debate over this term. It is a term that is defined to mirror the statute and that it is defined as an arrangement or agreement between a lender and a covered institution in which a lender provides educational loans to students or the families of those students and the covered institution recommends promotes or endorses the education loan products of the lender.

Again, of course, going forward from July 1 of 2010, you're going to have a preferred lender arrangement only with private education lenders.

Preferred lender arrangements include arrangements between a lender and an institution affiliated organization. It does not include arrangements involving the direct loan program. No preferred lender arrangement between you and the department or any direct loan program loans. Nor does it apply to loans originated through the PLUS Auction Pilot Program. I'm not sure if you remember this. This was a pilot program that never made it off the ground. But these were the two exceptions and these are statutory.

There was some debate around the negotiating table about why this wouldn't apply to direct loans and the answer is simply was that Congress exempted the direct loan program loans. We didn't expand this definition to require written or verbal agreements. We did that purposely because the statute doesn't address how a preferred lender arrangement comes about nor does it specify that a written or verbal agreement must exist.

We took a very broad interpretation of this statutory definition and we did so to make sure that we were negotiating in compliance with what we thought were Congress' intentions here. We were persuaded to carve out a few exceptions to the definition. We believe actually that implicit in the definition, a preferred lender arrangement is the understanding that the lender and the covered institution are not one and the same entity.

So we agreed to exclude private education loans that are made by an institution of higher education to its own students if the loans were funded by the covered institutions own funds or by donor directed contributions. Here I would refer you to our preamble discussion in the final regulation. That's again why I emphasized the importance of reading regulations. We have a very in-depth discussion about what we mean by an institutions own funds and why we did what we did.

I will summarize that for you here of course. Basically the Department clarified in the preamble to our rules that an institution would be considered to be using its own funds if the loan was made using funds that include, but are not necessarily limited to an instant revenue and tuition and fee revenue, excuse me, investment income, endowment funds, money that you borrow or a line of credit and the institution does not sell or collateralize the private

education loan for two years from the date the loan is fully disbursed.

So you can use all manner of funding as long as you don't sell that loan for two years after its fully disbursed, nor do you enter into an arrangement tying the sale of your private education loan to a lender after that two-year period has elapsed.

You may ask why did we do that? What was our concern? Our concern was about situations where an institution might borrow the money to make private loans and then sell those loans back to the lender and act merely as a pass through for the money so that they would create a loophole to our regulations. We don't think highly of loopholes and then be able to avoid the preferred lender arrangement disclosures so that, in a nutshell, is why we made these two exceptions.

Okay, we also agreed that a preferred lender arrangement does not include private education loans made by an institution of higher education to the students attending the institution if the private education loan is made under Title VII or Title VIII of the Public Services Act. These are the heath services loans generally or if its made under a state funded financial aid program if terms and conditions of the loan include a loan forgiveness option for public service.

I do want to mention to you that state loan programs under which the state is the lender are not excluded from the requirements associated with a preferred lender arrangement.

If schools - we had a lot of discussions about the burdensome nature of the disclosures associated with preferred lender arrangements and we're asked at the table and subsequent negotiations how schools could continue to help borrowers, but not be considered to be participating in a preferred lender arrangement.

So basically we told schools if you don't want to be considered to be participating in a preferred lender arrangement, but you still wish to provide some information to your students on private education loans, you can follow the guidance that we include in general Dear Colleague letter, GEN08-06.

And basically that is a covered institution won't be considered to be participating in a preferred lender arrangement if it provides borrowers with neutral comprehensive lists, a neutral comprehensive list of private education lenders that have made

loans to your students within a three to five year period including a statement that a borrower can choose any lender they wish. Also, you cannot recommend any lender and you may, this is something that's not included in the Dear Colleague letter but that we agreed to allow schools to do, you may include a comparison of the private loan terms and conditions.

So again, you can help your students out by giving them some neutral information and not be considered to be participating in a preferred lender arrangement. The schools will say, "Well, I have a list of lenders that have lent to my students for three to five years. Some of them are no longer making loans. Do I have to include them" The answer is absolutely not. You want to be giving borrower's good information. You don't want to be giving them a list of lenders, some of whom may not be making loans anymore. So if you know that some of the lenders you used to do business with are no longer making loans, you do not have to include those lenders.

We also were asked as a follow-up to the previous slide, "Well, I would prefer to refer my borrower's to one of the many third-party entities out there that are now providing lists of lenders to borrowers, but I don't want to be considered to be in a preferred lender arrangement. Is that a preferred lender arrangement?"

Again, the same guidance; we are going to use the same guidance as we did on our prior slide. GEN08-06 of guidance applies to these third-parties as well. So you, as a covered institution, may refer your borrower to a third-party entity that maintains, again, neutral comprehensive list of lenders and you won't be considered to be in a preferred lender arrangement as long as you ensure that that list is broad in scope. We don't define broad in scope.

Every time we use these kinds of words, people say, "Well, what does that mean? How many – what is it? What number is broad in scope?" You determine. I think we can trust in you to determine broad and scope and that does not – so list is broad in scope, doesn't endorse any lender or star rate it or point a borrower to one lender over another and as long as the lender does not pay to be placed on the list or pay the third-party entity a fee based on loan volume generated.

We're aware that there's a variety of these third-party entities out there and they all have a somewhat different business model. When we first started giving this guidance, a lot of them were coming in to us and asking us to examine the business model and

either say, "Give them the yay or the nay." We don't mention company names, we don't endorse anybody, that's not the role of the Department. My advice to you is if you are looking to use a third-party entity, to do a little research, to find out what their business model is, to make sure that there is no money changing hands between the lender and that third-party otherwise we will consider you to be in a preferred lender arrangement.

Let's look at the disclosure requirements for institutions that are participating in a preferred lender arrangement, with a private education lender. How many people here are actually participating in a preferred lender arrangement?

Very few. This is the about the same show of hands that I had yesterday in my first session. And it is what we actually predicted would happen with these regulations. It becomes a very burdensome exercise to provide all of the disclosures and as we walk through them, you'll see that there are many disclosures.

So let's begin with what those disclosures are. If you're a covered institution or affiliate that participates in a preferred lending arrangement, you have to disclose on your website in an all information materials that describe private education loans, the maximum amount of aid available under Title IV. Now here, again, we mentioned this earlier in the presentation. You're going to see this disclosure about the availability of Title IV loans again and again and that is because this is all about the borrower. We want the borrower to know about Title IV loans. We want the borrower to go to Title IV first.

We don't the borrower jumping into a private loan situation without at least first exploring their eligibility or receiving a disclosure about their existence and their possible eligibility under Title IV. You have to provide disclosures required by Truth in Lending Act Section 128(e)(11) for private loans offered by a covered institution.

I'm going to be referring to these TILA sections 128(e)(11) and 128(e)(1) several times as we walk through these slides. Basically these are provisions in the Truth in Lending Act that list a series of disclosures that, again, these are cross-referenced into the Higher Education Act and basically they are a rather comprehensive list of loan terms and conditions. So basically looking at disclosures around the terms and conditions here of private education loans. And this second bullet disclosures required by TILA 128(e)(1) for private loans offered by an institution affiliated organization.

What are informational materials? Well, they are publications, mailings, electronic messages or materials that are distributed to prospective and current students and that describe the availability of financial aid opportunities. Links to a website in terms of the provision of this material are okay and that as long as you have a point of contact at your institution that can also provide a potential borrower or a current borrower with printed information.

Again, the goal is to make sure that a student is an informed student, that they're making an informed decision when they apply for a private education loan. Makes it easier for students to compare financial aid that's available at different schools as well. The disclosures have to be provided annually for each type of private education loan that you offer pursuant to a preferred lender arrangement for consideration before a student borrows.

For any year in which you participate in a preferred lender arrangement with regard to private education loans, you must compile, maintain and make available to students attending your school a list of lenders of private education loans that you recommend. The institution has to list no less than two unaffiliated private education lenders and disclosure for each lender the reason the institution includes these lenders on the list especially with respect to the terms and conditions of their loans.

Continuing with preferred lender list disclosure requirements, the school has to state that a student does not have to borrow from any lender on the list. Again, ensuring borrower choice of lender ongoing throughout these disclosures. The method and criteria used to choose lenders to ensure the lenders are chosen on the basis of the best interest of the borrower. Again, all about the borrower.

And lastly, the institution must compile a preferred lender list without prejudice and again, for the sole benefit of students attending their institution.

On this slide you see private education loan disclosures that have to be made regardless of whether you are participating in a preferred lender arrangement or not. So, if you're a covered institution or an affiliate of that institution that provides any information about private education loans, again, regardless of whether you're participating in arrangement, these are the disclosures you're going to be required to make.

You're going to provide prospective borrowers with the TILA disclosures under 128(e)(1) and inform borrowers of the possible

eligibility for Title IV loans and that Title IV loans – the terms of the Title IV loans may be more favorable than private education loans. And these disclosures have to be presented in a manner that's distinct from Title IV loan information so again, you see, regardless of a preferred lender arrangement, Congress had that situation taken care of as well.

If you're providing information, just information and that would include the neutral comprehensive list. If you're providing that information to the borrowers, you must make these disclosures as well.

Private institutions are affiliates that participate in a preferred lender arrangement with a private education lender cannot agree to any co-branding of the loans by the lender. The Federal Reserve Board has similar provisions in their rules so if you're a covered institution or affiliate that participates in a preferred lender arrangement, you cannot agree to lender's use of the name, emblem, mascot, logo, et cetera of your institution or any words, symbols, or pictures associated with your institution in the marketing of a private loan in a way that implies the loan is offered or made by your school. And this is to make sure the borrower knows who is making the loan. Is it the school or is it the institution? So you need to not allow any co-branding by a lender that you're participating in a preferred lender arrangement with.

There is an exception to this rule and that is for credit unions. Evidentially many credit unions share institution of higher education names. I was not aware of that, but that is the case and the Congress did include an exemption for credit unions that share an institution's name. So if the name of a covered institution is part of the name of a credit union, the prohibition against using the institution's name does not apply.

Covered institutions and affiliates participating in a preferred lender arrangement have an annual report requirement. This is a report that has to be submitted to the Department of Education and that includes for each private education lender and the arrangement disclosures provided on the institution's preferred lender's list, reasons why they're participating in an arrangement with each lender including the terms and conditions and the institution has to ensure the report is made available to the public and current and prospective students.

Again, a lot of questions about this report. The good news is that the Department hasn't determined when you need to submit it or to

whom you need to submit it, so for now, the requirement for this report is on hold. There is no requirement to submit this report as of yet. If and when the Department makes the determination of the submission dates and to whom in the Department you would send such a report, we will mostly put that in a Dear Colleague and post that on our IFAC website.

Okay, let's turn to the Code of Conduct. The next 20 or so slides cover the Code of Conduct and so that is a requirement for all institutions that participate in a preferred lender arrangement. Basically the Code of Conduct is a list of prohibited activities. Recall when we discussed the reasons why Congress required so many new disclosures. Well, the Code of Congress – Code of Congress, Code of Conduct is an extension of that concern, of Congressional concern about the lack of transparency, about the inappropriate relationships between administrators, aid administrators and lenders and the need to return the focus of the student lending process to the borrower.

So under the new Code of Conduct, institutions and their affiliates must develop a code with respect to private education loans with which the institutions agents must comply. The Code of Conduct must prohibit conflicts of interest between an institution's agents and lenders. The institution has to publish the Code of Conduct prominently on its website, it has to administer and enforce the Code by requiring all of the covered institutions' agents to be annually informed of the Code's provisions.

As we walk through some of these provisions from the code, you're going to realize that a lot of it focuses on the relationships that existed between FFEL lenders and institutions and maybe not so much between an institution and a private education lender. Nonetheless, it is a statutory requirement to administer and enforce the code for all institutions that participate in a preferred lender arrangement and, of course, including a preferred lender arrangement for private education loans.

A little later in the discussion, we'll also talk about the code in terms of your participation agreement with the Department. It's a requirement of participation in the Title IV loan programs as well. So just keep that in mind as we go forward.

Institution affiliated organizations that participate in a preferred lender arrangement also have to comply with the Code of Conduct and they have to comply with the Code developed by the institution with whom they are affiliated and if that affiliate has a

website, publish the code prominently on the website. They too must administer and enforce the Code by requiring all of their agents to be annually informed of the Code's provisions.

Okay, what's in the Code? Let's talk about what's in the Code. The Code of Conduct includes a prohibition on revenue sharing arrangements with any lender. Revenue sharing is an arrangement under which a lender provides or issues a private education loan to students at the school and the school and the school recommends the lender or loan products of that lender and in exchange, the lender pays a fee or provides other material benefits including revenue or profit-sharing to the institution. Pretty self-explanatory.

Covered institutions Code of Conduct has to prohibit employees of their Financial Aid Office from accepting gifts from lenders, GAs or Loan Servicers. Again, this is a reflection of what were perceived as inappropriate activities between Financial Aid Administrators and Lenders. The gifts did include, back in the day, hospitality, junkets if you will, trips during conferences, not at our conferences, but at other big conferences there were lender sponsored entertainment, things of that nature. So what Congress is trying to get at here in terms of gifts and prohibit our gratuities, favors, discount entertainment, hospitality, loans, or other items of value, valued at more than a dismissive amount.

You'll still see people giving out pencils and candy and things of that nature, but no more gifts, prizes, things of that nature. Gifts also include services, transportation, lodging, meals, whether provided in kind by purchase of a ticket, payment in advance or by reimbursement. Some lenders were actually offering folks trips, transportation, hotel expenses, things of that nature. So again, all of this is now prohibited.

Congress also defines what a gift is not in the statute and the regulations mirror what a gift is not in our regulations. A gift does not include standard materials, activities or programs on issues related to a loan, food, refreshments or training that are part of a training session to improve service if training contributes to the professional development of an agent.

Again, we're continuing with what a gift does not include favorable terms and conditions and borrower benefits on a private loan to a student employed in a financial aid office. As long as those terms are comparable to those provided to all student employees. Exit and entrance counseling. As long as school staff are in control and counseling does not promote the products of any

lender. By in control, we mean somebody from the institution is present and able to answer a student's question. Gifts do not include philanthropic contributions from a lender, a service or a GA not related to or made in exchange for any advantage related to private education loans. Nor do they include state education grants, scholarships or financial aid funds administered on behalf of a state.

Code of Conduct has to prohibit contracting arrangements, consulting and contracting arrangements between an institution's agents and lenders. There are a couple of exceptions to this. An agent who is not employed in the institution's Financial Aid Office and not responsible for private education loans may perform paid or unpaid service on a Board of Directors of a lender or servicer.

An agent who is not employed in an institution's Financial Aid Office, but who is responsible for private loans may perform paid or unpaid service on a Board of Directors of a lender or servicer if the institution has a written policy by which the agent must recuse herself or himself from decisions regarding private education loans. Again, you can see here the emphasis on conflicts of interest. The point here is to prevent conflicts of interest between an institution's Financial Aid Office and the lender.

An officer, employee, or contractor of a lender or a servicer of private loans may serve on a Board of Directors or serve as a trustee of an institution, if the institution has a written conflict of interest policy where the Board Member or trustee must recuse themselves from decisions regarding private education loans. So again, very bright line about what's okay and what's not okay in terms of both school employees and employees of lenders and servicers.

A covered institution's Code must prohibit directing borrower's to particular lenders or delaying loan certification. Again, I mentioned this at the beginning, the borrower's choice of lender – ensuring a borrower's choice of lender is one of the themes, if you will, that run through all of these disclosures. The school cannot, for first time borrowers, assign through award packaging or other methods the borrower's loan to a particular lender.

The institution can't refuse to certify and can't delay certification of any loan based on the borrower's selection of a particular lender. And we do understand that you do business with certain lenders and you may have developed a process that would quickly facilitate a loan being made, a borrower may come in with a lender

and want to lend – borrow rather from somebody who you don't do business with.

We understand there may be some delays in that sort of scenario and we wouldn't consider that to be a delay of any type of certification. Code of Conduct has to prohibit offers of funds for private education loans including funds for opportunity loans and exchange for a promise of a specified number of private education loans as specified loan volume or a preferred lender arrangement for such loans.

An opportunity pool loan, what is that? Well, that means a private education loan that involves a payment directly or indirectly by the institution of points, premiums, additional interest or financial support to the lender for the purpose of the lender extending credit to the student.

The code has to prohibit assistance with call centers or Financial Aid Office staff from a lender. There are a couple of exceptions to this. The institution is not prohibited from requesting or accepting, excuse me, professional development training for Aid Officers, Counseling and Financial Literacy or Debt Management Material for borrowers. If those materials disclose that the lender prepared or provided the materials and staffing on a short-term nonrecurring basis, and that's only to assist with Aid related functions during emergencies.

Back in the day, it was common for lenders to staff Financial Aid Offices and provide all manner of financial literacy and that sort of things thing. So some of this is continuing to be okay. I think that the view here, as long as it's beneficial to a borrower are fine, but if its really more of a gift to the school, if its relieving some of the schools expenses or burden, then that's not okay.

The Code has to prohibit any employee of the Financial Aid Office or who has responsibilities with respect to private education loans and who serves on an advisory board, commission or group established by a lender or group of lenders from receiving anything of value except the employee may be reimbursed for reasonable expenses.

Again, this is prohibiting or preventing that conflict of interest. Institutions have to develop – oh, I'm sorry, missed the top half of the slide here. Switching focus slightly. Program participation agreement requirements. I talked about the new program participation agreement requirements with respect to the code and

as you can see here from the first bullet, I would remind you not only is the Code a requirement of a preferred lender arrangement, but it is a requirement of your participation in the Title IV HEOA loan programs.

So if you were participating in the direct loan program and the Perkins Loan program, obviously you're not participating in FFEL anymore, you're still required to have the Code. You're still required to post it on your website. You're still required to comply with it, although again, as I pointed out, many of the features of the code really applied more to the relationship between a FFEL Lender and an Aid Administrator than they do between your relationship with the Department.

But nonetheless, it remains a participation agreement requirement. Anther participation agreement requirement for any year that you have a preferred lender arrangement, you must annually compile, maintain and make available to students a list of private education loans that you recommend.

And finally the last new participation agreement is that you must – institutions must, upon request of an enrolled or admitted student applicant provide the applicant with a Self-Certification Form and the information needed to complete it. The intent of the Self-Certification Form for private loans is really to prevent borrowers from over borrowing and to provide for more informed private loan consumer.

We'll talk about what's on the form in a minute, but that is really the point of the private education loan Self-Certification Form. The form can be provided directly through your Financial Aid Office, it can be provided through any office that you designate. Financial Aid probably makes the most sense, but depending on how your institution is structured that is up to you.

You can post it on your website for download. Once the form and the information has been disseminated, there is no requirement that the institution continue to track the status of a private education loan. And there is also no requirement that you update the form if the information on the form changes.

We did, as I said earlier, develop this form in consultation with the Federal Reserve Board. This satisfies TILA requirements, which require that before a private education lender can disburse a private education loan, the lender must obtain a Self-Certification from the applicant. The covered institution at which the applicant is

enrolled or admitted must – this is a requirement, must provide the form to the applicant.

So if a student at your school is enrolled and admitted student, comes to you, institution of higher education and request the form, you must give them the form. That is a regulatory requirement.

Here are what the items that are included on the form. Again, that the applicant may qualify for Federal, state, or institution aid. Capital F on federal there. And is encouraged to discuss the availability with the officials at the Applicant's Institution. We want – and this is all mandated by statute by the way, all of the contents of this form are required by the law. So Congress clearly wants the borrower to know about federal aid, also about institution aid or state aid that might be available to that borrower.

Private education loan may affect the applicant's eligibility for federal, state, or institutional aid. If a borrower gets a private education loan and you're aware of it, especially I know lots of institutions have arrangements where by they certify loans with certain lenders or credit unions. If you're aware that the borrower has borrowed over the cost of attendance with his private education loan, you're gonna have to adjust the borrower's other aid. So they need to know – the borrower needs to know that that loan, that private education loan might affect their eligibility and what they get in other types of aid.

And that the information required on the form is available from the Financial Aid Office so you can a real attempt here to keep the borrower in the loop with the Financial Aid Office and sort of point the borrower in the direction of those resources. You are valuable resources to a borrower. Congress realizes that, we realize that, and that is why you see these types of provisions on the form.

More information provided with the Self-Certification Form. Applicant's cost of attendance and the estimated financial assistance and the difference between those two. This gives the borrower a very clear picture, at the time that information is given to the borrower, of course, of what they may need to borrow in terms of private education funds. And finally, there was a place for the applicant's signature.

I do want to tell you there is a Dear Colleague letter, it's GEN10-01. That Dear Colleague letter is where the form is that we have up on our IFAP website so you can find the form. And this Dear

Colleague letter as well as all of the information I've given you today in terms of how to administer the form if a form is requested from you.

Okay, and finally in terms of the Department's regulations. We have a new standard of administrative capability. This is another – we have to begin and continue to participate in Title IV programs and institution has to another report – report annually to the Department any reasonable reimbursements paid by a private education lender to any employee in your Financial Aid Office or who otherwise is responsible for education loans or either financial aid at the institution. Remember a couple of slides ago, we talked about this reimbursement for reasonable expenses.

Here we give you the definition of reasonable. Reasonable means in accordance with state or federal government reimbursement policies. The good news on this report is just like the good news on the annual report. We have not yet determined when or to whom in the Department you would submit such a report and until we do, you are not required to submit this report.

Okay, now we're going to take a look at these new responsibilities in terms of the Federal Reserve Board's regulations. We're going to talk a little bit about the Truth in Lending Act. As we said earlier, the HEOA also amended the Truth in Lending Act. The general purpose of the Truth in Lending Act has always been to provide consumers with meaningful disclosures about the cost of consumer credit.

Again, implemented for all lenders by the Board under their Regulation Z. If you're looking to do a Google search, you can simply type into your Google box 12CRF226 and you will get a link to the Federal Reserve Board's new regulations. They do offer an official staff commentary, which gives examples and additional guidance and if you follow their commentary in good faith, you are actually insolated from liability.

So let's move on and talk a little bit more about TILA background. TILA requires closed and non-revolving credit disclosures be made before consummation. Before the HEOA amendments model disclosure forms were standardized for all types closed and credit, including student loans. So everything, no matter – if you got a car loan, if you got any kind of loan, you're basically look at the same kind of disclosures from the Federal Reserve Board's perspective. All of their disclosures look the same. With these new disclosures,

these are private education loans specific. These are just for private education loans only.

I'm going to do a quick overview of their final rule, the new disclosure requirements are again tailored to private education loans specially. They have to occur at three different points on or with the application, after loan approval and at consummation of the loan. The disclosures that accompany the application are general in nature. The disclosures at loan approval are very specific and the disclosure at this – I'm sorry, excuse me. Losing my voice here.

And the disclosure at consummation are very similar to approval. So we go from general to specific to back to general. Note that the consumer has 30 days to accept a loan during which minimal changes can be made to the terms and conditions. And we'll talk about this in some detail. And finally, the consumer has the right to cancel within three days of receiving the final disclosure.

The loan cannot be disbursed until that three day period has elapsed. It's really like – we call it a right of recession. Three days, the borrower can't waive it, you can't waive it. It has to elapse, those three days have to elapse before that loan can be disbursed.

Okay, the Board's rules also require that the lender obtain the Self-Certification Form from the borrower before they consummate the loan. We just talked a little bit about what that form is all about. The rules contain model application approval and final disclosure forms that the Board developed through one-on-one focus groups. This is a huge – it's a wonderful resource for you. All of their model disclosures are in the rule. Hark, remember I gave you a link to the rules so all of the disclosure model forms are in there. You're free to modify those forms if you're – for instance, most of the forms are presented in such a way as to reflect an adjusting interest rate, an interest rate that might go up and down.

If you had like a 5 percent interest rate, you can adjust your disclosure form to reflect your 5 percent interest rate. The Board's rules do contain a prohibition on co-branding, much like the Department's rules, we talked about that. And their provision is much like the Department's. And finally, the requirements for the provision of information by creditors to educational institutions with preferred lender arrangements. That generally is going to refer to lenders, not the institution itself if you are a lender. Lenders are going to be required to provide you, an institution,

with certain information if you are in a preferred lender arrangement.

Who is covered by these new rules? Well, private education lenders are covered by this new rule and remember, private education lenders are financial institutions, federal credit unions, any other person engaged in the business of soliciting, making or extending private education loans.

What the board did here was not use the term private education loan. They used an existing term in their regulations instead. And that term is creditor. And that has been a defined term in Regulation Z for quite a while. So the Board's final rules on private education loans applies to creditor as that term is defined and as I reminded you earlier, institutions of higher education has long been considered creditors under the Federal Reserve Board's rules.

Okay. A creditor, what is the definition then of a creditor? A creditor means a person that regularly extends consumer credit that is subject to a finance charge or is payable by written agreement in more than four installments and is the person to whom the obligation is initially payable. What do we mean by regularly extends credit?

Regularly extends credit means extending any type of consumer credit more than 25 times in a preceding calendar year. So if your institution meets that definition, then you are in fact a creditor and you are subject to these regulations. The final rules apply to private education loans made in whole or in part for post-secondary educational expenses. And that means tuition and fees, books and supplies, miscellaneous personal expenses, room and board, allowance for loan origination fees, basically it adopts the Higher Education Act definition of educational expenses that you find in section 472 of the Higher Education Act.

Educational expenses must be incurred at the covered institution, which under the feds rule means all institutions of higher education and unaccredited institutions as well. The rule covers loans issued expressly for those expenses to a borrower and that's regardless of whether the loan is provided through the educational institution the student attends or directly to the student from a private education lender.

Excluded from coverage. Federal student loans, Title IV loans are not covered by these rules. Open end revolving credit, we

mentioned that earlier, that's credit card debt, real estate secured loans, that's mortgage debt, and the two types of credit extensions made by educational institutions that we covered a little bit earlier in the presentation and I include these because they are in the Federal Reserve Board's regulations. Again, they are the emergency short-term loans, the term of the credit extension is 90 days or less. Generally that means your emergency short-term loan or an extension of credit on which an interest rate will not be applied to the credit balance, the term is one year or less even if the credit is payable in more than four installments.

But you do need to remember that these extensions of credit, these exempted extensions of credit may still be covered under the Board's old rules, before the Board has new rules specific to private education loans recall they had loans that covered all extensions of credit so in fact you may still be subject to 12CRF226.17 and .18 on those two exempted types of extensions of credit. Okay, we're gonna start now with a little more of an in-depth look at the disclosures that are required during the three points in lending process but before I do that, I want to just give you some general information about the Board's disclosures.

Basically all of your disclosures, if you're making these disclosures must be clear and conspicuous. They have to be grouped together, segregated from everything else and not contain information that is not directly related to the disclosures so again, they want to make sure the borrower is seeing this as something separate and something that's going to apply to this loan, this private education loan that the borrower is making.

Application disclosures that are delivered electronically, this is the beginning disclosure, are not subject to e-sign consent requirements. However, if you are delivering approval and final acceptance disclosures to the borrower electronically, they are subject to e-sign consent requirements. That means you have to get the borrower's consent in order to communicate with the borrower electronically.

Is everybody familiar with e-sign and the requirements of e-sign? Yes. If you're not and you are an institution who's doing business electronically in terms of your loans, the middle and last disclosure, you're going to need to get borrower consent to communicate electronically.

Okay, so let's talk about the application disclosures. Application disclosures are made on or with an application or a solicitation

where no application might be required. Again, I mentioned earlier, these disclosures contain general information about the loan. It's the terms and condition, interest rates, fees, default or late payment costs, repayment terms, eligibility requirements, the rights of the consumer, this sort of thing.

These disclosures also provide information about Federal Student Loan alternatives. Again, I feel like I'm beating a drum up here. Federal Student Loan alternatives. These disclosures are made continually to a borrower, almost at every step and that they may qualify for Title IV loans and that the student can obtain more information from the Department or the school that the borrower attends.

On the model forms developed by the Federal Reserve Board, they have a link through the Department of Education that the borrower can – once you give these disclosures to the borrower, the borrower, if they need more information, they know exactly where to go.

Approval disclosures are provided after the approval of the application for the loan or with any notice of approval to the consumer. Approval disclosures contain transaction specific rate and term information including the information contained in Section 128(e)(2) of the Truth in Lending Act.

Approval disclosures then provide borrower specific information like the borrower's interest rate. This is, again, specific to the borrower. The borrower's interest rate, the borrower's fees, the borrower's loan, and the borrower's repayment terms. This might be different from borrower to borrower depending on the terms, especially if you're using a lender. It would definitely be different from borrower to borrower.

The acceptance period. The consumer has 30 days to accept a private education loan from the date of the approval, rather the date that the approval is received. The borrower can accept earlier than that 30 day period, they can accept on day 2 for instance. They can accept on day 15, but they can also accept on day 30. The point here is that they have the full 30 days to decide whether or not they can accept that loan.

Also the exact date on which the acceptance period expires must be made known to the borrower so that they can have that full – they're aware of that full 30 day period.

There are limitations on the changes that you can make to the rates and the terms of a private education loan during that 30 day period. There are permissible changes and that means that you don't have to make any re-disclosures. Permissible changes are a rate change based on an index. Index interest rates may go up or down. If that's the term and borrower knows that, interest rate might go up or down. You don't have to make any further disclosure. Unequivocally better changes can be made which means the change that would benefit the borrower, like a lower interest rate, perhaps you began with 5 percent and you're out of the goodness of your heart, you've decided well I'm going to give you 4 percent. That is an acceptable change and you do not have to make any re-disclosures.

Continuing with permissible changes. You can withdraw the offer completely if you suspect, for any reason, that the consumer committed fraud or the extension of credit would be prohibited by law. Permissible changes include reducing the loan amount based on a school certification or information from the borrower indicating a decrease in financial need. This is, again, this is another reflection of the borrower's concern about over borrowing. We don't want borrower's to borrower any more than they need to if at all possible in private loans.

Other changes to the terms are committed only to the extent the consumer would have received them if the consumer had applied for a reduced loan amount. More permissible changes to the terms and conditions of a private loan during that period, but these changes would require re-disclosure. Changes that are made to accommodate a request by the consumer such as a lower or higher loan amount. For instance, the consumer was approved for $8,000.00 but now wants $12,000.00. In this case a new disclosure is appropriate and a new 30 day acceptance period as well.

Interestingly, however you need to leave the original offer on the table and until that new offer is accepted. And let's give you an example. For instance, a borrower might say – a lender might say, "I'll give you $12,000.00, but I'm raising your interest rate and your fees." In that case the borrower can still go back to the original offer that was on the table. You can't withdraw, in other words, that original offer.

Okay, we're almost done. Light at the end of the tunnel. Final disclosures. Final disclosure is very similar to the approval disclosure in that it contains the borrower's interest rate, fees, repayment terms and cancellation rights. The final disclosure must

be provided after the borrower accepts the loan. Well, then that 30 day period following the date on which the consumer received the approval, disclosures and at least 3 days before disbursement.

A borrower, again, is entitled to three days to cancel the loan after receiving that final disclosure. That again, a three day period, cannot be waived by you or by the consumer. And all private education loans have this cancellation clause no matter what. And only after that three day period has elapsed may you disburse that loan.

Let's talk a little bit about the Self-Certification Form from the Feds perspective. The regulations regarding private education Self-Certification are also in their, the Federal Reserve Board's TILA regulations. And this now, the focus turns to the lender in terms of the lender's responsibility for this – to obtain the Self-Certification Form. The lender has to obtain a signed completed form from the borrower of a private education loan, of course, before consummating that loan.

The Board did give the lender some flexibility around how to obtain the form. The lender can receive the form directly from the consumer or the lender can receive the form from the school, at which the borrower is enrolled an in attendance so the lender can – you can give that form to a lender.

The lender can also provide the form to the consumer with the required information already on it. They can actually say, "Here you go. Here's your form. It's all completed. All you need to do is sign it." That gave us pause. We were a little concerned about that degree of flexibility. However, we would emphasize that if the lender does present the form in this manner, the information on that form still has to come from a school. So the lender would have been in touch with you to get that information.

Almost done. A little bit about co-branding. The rules, again, prohibit co-branding of private education loans, which means that the lender cannot use a school's name, logo, mascot, et cetera, et cetera in any way that implies an endorsement by the school. The Fed did include a safe harbor in their regulations. We did not. Marketing does not imply endorsement if there's a clear and conspicuous disclosure that the school does not endorse.

Remember these regulations are for the lenders. Our regulations are for the school. You may be a lender, but our regulations would, I believe, trump the Feds in this case. There is also an

exception for credit unions, just like in our regulations. There is an exception for credit unions that have part of the institution's name in their name.

And finally the Federal Reserve Board has rules on the provision of information by creditors that have a preferred lender arrangement with a covered institution. The creditor must provide the institution with certain information from the creditors application disclosures for each type of private education loan offered. This means the creditor, if you were doing business with a private education lender, you're the institution and you have a preferred lender arrangement, the lender is required to provide you with certain information. And the Fed, unlike the Department of Education did establish a deadline for this information to be submitted and they do include that in their regulations. And with that I'm going to thank you for your patience. I know this is a lot of information to absorb and I would like to open up the floor for questions. Yes, one brave soul.

Female 1: Hi, we fall under the under 25 loans for our institutional loan, under 25 loans a year, but I noticed it said calendar year and -

Gail McLarnon: I'm sorry, you fall under the 25 loans and –

Female 1: Right, but it says calendar year so I normally give a loan that has a disbursement in fall and a disbursement in spring so are you counting that loan in both calendar years or would that just be the first disbursement is where it is counted?

Gail McLarnon: Calendar year is January to December if I'm correct. And –

Female 1: Right, but we normally in an academic year will give them a fall disbursement in September and then their second disbursement will be in January.

Gail McLarnon: I see what you mean. Right.

Female 1: So am I counting that in both years? Or just in –

Gail McLarnon: I would say we're counting – yes, you are counting it in both years. You're making an extension of credit in year say 2009 fall you're making an extension of credit in the spring of 2010.

Female 1: So it would be better to do second – even though it's one loan?

Gail McLarnon: That would be my interpretation, yes.

Female 1: Okay, so it's better to do the second disbursement in December then.

Gail McLarnon: Okay, thank you.

Male 1: Have a question about the 90 day rule. So a student just – an example, a student begins a semester, has some type of outstanding balance albeit maybe even small, a finance charge or late fee, is this every month that that outstanding balance is there and then the student beyond 90 days, beyond three months, and so that outstanding balance remains, finance charge is assessed every month after 90 days, it's completed at that point, the institution is a creditor and subject to Regulation Z, am I understanding that correctly?

Gail McLarnon: So you're saying you have a short-term emergency loan and that you charge interest in fees and you're asking me if there's a balance still due after that 90 day period?

Male 1: Well, the student has been allowed to continue in classes without being dropped, so it may be $1.00, but for some reason the student hasn't paid the complete bill, and so if I'm understanding correctly that's considered an extension of credit or emergency loan?

Gail McLarnon: He has to pay. Yes, if you're going over that 90 day period, it has to be 90 days or less and that is regulatory requirement from the Board.

Male 1: Yeah, that's pretty amazing.

Gail McLarnon: I don't think I would have the authority to say, "Sorry, a $1.00 is dimminisis it doesn't matter." I would say to you it's pretty straightforward as far as I'm concerned. There is information in the Federal Reserve Board's final regulation with Federal Reserve Board contacts just like our regulations have – maybe they have my name in them in terms of student loan, consumers and requirements from the Department's perspective. There is a contact in the Federal Reserve Board's regulations as well if you have a specific question that I perhaps am not able to answer, I would direct you toward that contact person.

Male 1: Okay.

Gail McLarnon: But in terms of my interpretation of the rule, it's 90 days or less, it's an extension of credit for 90 days or less. If you're exceeding

that 90 day period, then you are going to be outside of that exemption.

Male 1: Okay, thank you.

Female 2: I have a question about whether loan product or preferred lender arrangement, if we have a loan program where the institution pays the interest on the loan, and we offer that loan as part of our need based award package in the original financial aid award, but the loan is actually administered by a lender, an outside lender, I'm assuming that's a preferred lender arrangement.

Gail McLarnon: You'd pay the interest on the loan.

Female 2: Yes, it's a subsidized loan program –

Gail McLarnon: How does the borrower find out about this?

Female 2: We offer it in our original need based award package.

Gail McLarnon: And so you're including it in the package?

Female 2: Yes.

Gail McLarnon: I would call that a preferred lender arrangement.

Female 2: Okay. Second question then is in every single case, we have exhausted all of their Title IV eligibility before we would ever award this particular loan, so do we need to still include in that award notification all of that language about your maximum eligibility for Title IV funds?

Gail McLarnon: Yes, unfortunately, you do. Sorry. These are statutory requirements basically reflected in the regulations. For all of my talking up here and all, and all of our negotiations and – the statute was very clear. Was very, very clear and there was actually very little room, in my mind, for making changes to these types of disclosures. They spelled everything out and again, I mention the continued disclosures throughout these regulations around Title IV. Congress specially place them in five, six, seven, or eight places. And when we talk about, for instance, the private education loan Self-Certification Form, or the disclosures you're required to make on private loans, even if you're not in a preferred lender arrangement, it's still included so yes, you do have to make them. Yes.

Female 3: I have a question about, as far as keeping in as students file, we're a small clock hour, 900 clock hour school and our tuition exceeds, of course, what Federal Financial Aid covers so there's a gap. And institutions been covering that with like a retail payment plan that extends pass the year's time. I've been providing the disclosures to the students, but do I need to keep like something in the file that says that those disclosures have been provided? I've been keeping a copy that they initial in their student file, but I wasn't sure if that was something that is a requirement that we keep?

Gail McLarnon: That would be a Federal Reserve Board requirement. What you're doing is making up private loan. If it exceeds the time frame of the exemption and you are required to – even if you do – you might do this electronically. I would be, to cover your bases, I would be keeping records that indicate that yes, you did in fact make these disclosures to the borrower.

Female 3: Okay great. Thank you.

Gail McLarnon: For your own protection I would do that. Yes.

Female 4: Hi, I was curious about how all the Title VII and Title VIII loan funds got carried into this when much of their terms are better than anything that is given in the Title IV programs as far as repayments and being able to give loan forgiveness and things like that are better than direct loans anyway and how those types of loans got carried into them when they are in fact in no way private loans as far as the terms of a private loan would go since they're the Department of Health and Human Service monies and not – they just aren't Federal Title IV loans. And we never really got clarification ever how those got carried into that and its awkward because like what the woman was saying before, we package students with those loans and I actually given preferential treatment to students who put parental information on their forms even if they're in professional programs.

Gail McLarnon: Right. It's a good question and it's one we get almost without exception every session. Title VII, all those health profession loans – remember that the Department did exempt them from the preferred lender's list of disclosures right?

Female 4: Right.

Gail McLarnon: The Federal Reserve Board, even though we told the Federal Reserve Board about these loans and told them about – they're very similar to the Perkins Loan Program in a lot of ways, there

really wasn't an appropriate loan on which to have to make all these disclosures because it's just too burdensome.

Female 4: And not to mention awkward.

Gail McLarnon: Awkward as well correct. And I know for a fact that they receive comments from the higher education community on the fact that perhaps they should consider these loans as an exemption as well. However, they did not and we had – and it's typical Washington conversation. We had an akubo, we did a *[Inaudible Comment]* akubo and NASVA and the Federal Reserve and I forget who else, just about this subject, about how difficult it was.

School was telling us, all of us, the Department and all of the associations how difficult this was and why do – do really mean for us to have to do this and unfortunately because they did not exempt it the way they did those other two extensions of credit, you still have to make these disclosures. They did say, however, that just do the best you can. Whatever – and they understood, they finally did understand that this is really not an appropriate loan program on which to have to make these disclosures.

So to make a good faith effort that will be fine. They will have to, in order to completely rectify the situation, they'll have to change their rules. And I don't know – the Federal Reserve Board is just about to establish a new consumer agency within the Federal Reserve Board. And I don't know if that will be accompanied by regulations and if it is if this would be an appropriate vehicle for them to do regulate on. But they're aware of it and my advice to you all as institutions is to make your best faith effort and that will be fine.

Female 4: Okay, now –

Gail McLarnon: I've got a red shirt behind you who is looking at me.

Female 4: Oh, okay. Oh.

Gail McLarnon: That means I have to leave.

Female 4: Okay.

Gail McLarnon: So I can – we can – I'll be walking out if you've got further questions I'll be outside.

Female 4: Okay, I'll do that.

[End of Audio]