Agenda

Key Lessons Learned
- Planning
- RFI Creation
- Process
- Analysis
- Next Steps after Lender Selection

Analyzing Borrower Benefits

Evaluating “Hot Button” Issues
- Lender Financial Condition
- “Direct to Consumer” marketing

Analyzing Alternative Loans
Lessons Learned
Planning – Key Questions

- How many/which lenders to invite to participate in the process?
  - “Casting a wider net”

- What are key criteria to be used in evaluating lenders?
  - Value of borrower benefits
  - Loan processing
  - Lender service to borrowers and financial aid office

- What is the relative value/importance of each criterion?

- How will proposals be evaluated?
  - Formulaic (points per question) vs. “holistic” approach

- How many lenders to select as preferred lenders?
  - Developing range can be extremely helpful

- How should information about process and preferred lenders be disclosed?
Polling Question #1

Please indicate the method you have used (or intend to use) to select lenders for the 2008-09 processing year:

- Request for Information (RFI)
- Request for Proposal (RFP)
- Ask current lenders for their new terms and borrower benefits
- Less formal approach
- None of the above
Lessons Learned
RFI Creation

- Be specific in your questions rather than asking the lenders to be specific in their responses.

- Determine the criteria then write the questions to measure the lenders against those criteria.

- Focus on Yes/No questions, with fewer open-ended questions.
  - Lenders see RFIs as “sales proposals” while schools are seeking objective answers to their questions.
  - Open-ended questions are difficult to analyze objectively.

- For measurement related questions, specify timing and methodology for the factor being measured to ensure consistency.
  - Cohort default rates.
  - Customer service operating statistics.

- Use RFI as opportunity to collect information from lenders regarding best practices.
  - Best practices in default management initiatives.
Lessons Learned
Be Specific with Your Questions

Open ended questions (easy to ask, hard to analyze)
- Please indicate the benefits provided to Stafford loan borrowers.
- What on-line services do you provide to borrowers?
- What student loan activities does your company directly manage?
- How do you notify PLUS borrowers of the credit decision?
- Please provide a payoff amount for a $10,000 Stafford loan in a 10 year standard repayment with fixed interest rate of 6.8%.
- Describe the staffing dedicated to schools to resolve problems.

Creating specificity from open-ended questions
- Create list of options for lenders to choose from rather than leaving open-ended
- Be sure to have an “Other” category in case you do not have complete list
- Have a “Notes” field available for lenders to provide further clarification
Polling Question #2

Please indicate what stage of the lender selection process that you currently find yourself:

- Currently developing an RFI/RFP
- Waiting for lenders to respond to RFI/RFP
- Analyzing lender responses
- Lenders have been selected
- Other (please specify)
Lessons Learned
RFI Process

Lenders want your business given competitive nature of market!
- Large number of lenders responding to RFIs at client schools

Provide lenders with information about your school
- Loan volumes
- Graduation rates
- Default rates
- Operating systems

Prepare detailed instructions to accompany the RFI
- Deadlines
- Criteria used to evaluate lenders
- Minimum specifications
- Contact person for questions/clarifications
Lessons Learned
RFI Process

- Be sure to evaluate each loan program separately (significant overlap with non-cost factors)
  - Stafford
  - PLUS
  - Grad PLUS
  - Alternative Loans

- Ask lenders to respond to RFI in electronic format (e.g., Excel) as well as hard copies

- Market your RFI on NASFAA News to increase number of lenders responding

- Allow lenders at least three weeks to respond to your RFI

- Ask lenders to provide a Notice of Intent to gauge their interest in the process

- Be prepared to ask lenders to clarify their proposals
Lessons Learned
“A Fluid Situation”: April 2008 in Student Lending

- **Access Group**
  - Reinstating origination fee of 1% for Stafford loans

- **Citibank and Chase**
  - Conducting “school by school” review to determine profitability and whether to continue lending

- **Northstar/T.H.E.**
  - Suspending all FFELP programs

- **Nelnet**
  - Announced “… is currently not originating new private student loans to be held on its balance sheet.”
  - Will be partnering with other lenders for private loan program

- **Sallie Mae**
  - Reinstating origination fee of 1% for Stafford loans
  - Discontinuing FFEL loan consolidation

- **Student Loan Xpress**
  - Closing student lending origination operations effective April 3, 2008

- **TERI**
  - Guarantor of private loans for First Marblehead
  - Filed for Chapter 11 bankruptcy
Lessons Learned
RFI Process – A Fluid Situation

Situation: There have been frequent changes in borrower benefits and pricing by lenders in the last three months

Responses
- Plan for how these modifications will impact your list
  - Adding/dropping lenders
  - Minimum number of lenders on list
  - Student communications
- Update RFI analysis to reflect new pricing and benefits
- Modify lender list based on plan described above
- Contact lender to inquire how applications prior to change will be handled
- Update loan terms and benefits on your lender list as it changes
Lessons Learned
RFI Analysis

Issue: Loan scenarios often not effective at gauging true loan cost
  – Need to be extremely detailed to be effective, otherwise may have differing assumptions
  – Wide disparities in values often require follow-up with lenders

Solution: Create amortization table with assumptions and have lenders complete to ensure consistency

Issue: Customer service questions often don’t seem to get at the essence of service
  – Average wait time, average tenure, time to resolve problems and other metrics do not always seem directly related to performance

Solution: SLA has developed alternative surveys and analyses to provide additional data points
  • Financial Aid survey on lender service
  • Borrower customer service surveys
  • Analysis of web services and information
Lessons Learned
RFI Process – Next Steps after Lender Selection

- Confirm that the lenders are committing to the benefits provided in their RFI responses.
- Confirm that no other material changes have been made that would impact the lender’s RFI response.
- Have lenders certify the names of any other student lending affiliates, given recent Department of Education guidance that none of the lenders on a preferred lender list should be affiliated.
- Develop set of reports that lenders will be expected to provide on a monthly or quarterly basis to highlight loan volume, loan approvals (for PLUS and Alternative loans) and other relevant activity.
- Develop meeting schedule with lenders on regular basis to assess performance and discuss any processing or customer service related issues.
- Debrief on the recently completed process to highlight strengths and weaknesses of approach.
Lessons Learned
Financial Aid Professionals Respond

**Importance of specificity**
- “Be as specific as possible with the questions you ask of your prospective lenders.”
- “Need to ask specific questions rather than asking the respondent to be specific - they don't always say what they mean.”

**The current credit crunch has made the process more challenging**
- “Things are always changing”
- “Deciding who to send the RFI to”

**Importance of reviewing the process once it is complete**
- “We learned that there were a few questions we will not ask again that were not very helpful.”
- “Include all the details in the original RFI”

**Getting an early start is important too**
- “Need to start the process earlier”
- “Too much to read”
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Lessons Learned
Borrower Benefits

As Stafford origination fees decline, more schools asking lenders to partner with guarantors who will waive federal default fee
- Federal default fees will represent 50% of all fees in 2008-09
- Federal default fees will represent 67% of fees in 2009-10
- ECMC, TG and Great Lakes seem to have most comprehensive default fee waiver policies; other guarantors also waiving fees but may limit based on school, geography or lender.

SLA has created a Borrower Benefits Index which allows clients to compare benefits on an “apples to apples” basis
- What is the probability of earning a given benefit?
  - Apply industry standards on borrower repayment rates OR
  - Ask servicer to provide data on repayment history for your borrowers
- What is the value of the benefit in today’s dollars?
  - Focusing just on dollars of savings obscures distinction between upfront and back-end benefits
    - Most benefits provided during repayment don’t occur until the end of the loan term
Lessons Learned
Which Benefit Would You Choose?

Benefit 1: 1% origination fee savings on $3,500 Stafford loan
- Nominal savings: $35 (no discounts apply)

Benefit 2: Waive last 8 payments after 112 on-time payments
- Nominal savings: $400 (approx.)
- Discounted due to timing of savings: $200 (approx.)
- Discounted due to probability (optimistic estimate of 5%): $10
Despite overall reduction in borrower benefits, there are differences in benefit programs being offered by lenders

- **Lender A**
  - 1% origination fee
  - 1% federal default fee
    - Guarantor not waiving fee
    - Lender not paying down fee

- **Lender B**
  - 0% origination fee
  - 0% federal default fee
  - .25% interest rate reduction (auto-debit)
  - 1% principal reduction after 12 on-time payments

- **Lender C**
  - 1% origination fee
  - 0% federal default fee
  - .25% interest rate reduction (auto-debit)
  - .50% interest rate reduction after graduation
Lessons Learned
Borrower Benefits – Key Provisions

- Understand all the conditions tied to a given borrower benefit
- Understand what events can lead to benefit being lost
  - NSF event for auto-debit
  - Consolidation
  - Deferment/Forbearance
  - Late payment after benefit is earned
- Determine whether benefits which have been lost can be restored again
- Determine the timing of interest capitalization
- Ask how and when lender benefits will be communicated to borrowers
- Assess the achievability of benefits
  - Lender provided utilization rates
  - School specific data provided by servicer
  - Industry norms
Borrower Benefit Trends

College Cost Reduction Act has led to reduction in borrower benefits overall, however benefits still can be found.

Fewer lenders waiving origination fees on Stafford loans
- Increased importance of federal default fees

Most popular benefit continues to be interest rate reduction tied to auto-debit from checking or savings account

Benefits once earned have more strings attached (read the fine print)
- Not uncommon to earn benefit and then lose it if you do not maintain on-time payments
- Lenders want to shift more customers to receive electronic statements
- Trend toward more benefit restoration opportunities
  - Vary widely in their ease/difficulty
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**Hot Button Issues**

**Lender Access to Capital**

- Identify source(s) of lenders’ capital
  - Internally generated funds (e.g., deposits)
  - External
    - Debt financing: No municipal bonds issued in first quarter for student loans for first time in 40 years (Thomson Report)
    - Lines of credit: Banks pulling back on outstanding lines
    - Securitizations: As of early March, student loan securitizations down 67% (Asset-backed Alert ABS database)
    - Auction rate securities: Frozen market, very little liquidity

Current environment seems to favor diversified financial institutions, however understand that their exposure to sub-prime and increased consumer credit write-offs my impact their appetite for student loans

- Key questions
  - Capacity to originate new loans
  - Current credit rating on outstanding debt (S&P/Moodys/Fitch)
  - Current loan capacity based on prior capital raising (non-diversified student lenders)

- Current efforts in Congress focus on providing liquidity to student loan markets
  - Purchase loans from private lenders to provide capacity to make additional loans
Hot Button Issues
Direct To Consumer (DTC) Marketing

Financial aid offices concerned about increased popularity of DTC loans
- Often carry higher interest rates than school channel
- Most do not require school certification thereby circumventing their office

RFIs asking lenders to describe their activities
- Methods
- Frequency
- Types of financial services being marketed

Schools asking preferred lenders to provide varying assurances
- Not to market directly to their students
- Ask permission to market to their students
- Guarantee that students will receive school channel terms and benefits if they respond to DTC marketing
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Analyzing Alternative Loans
Polling Question #3

Indicate which factor is MOST important in your Alternative Lender selection process

- Financial strength of lender
- Fee structure
- Tier 1 pricing
- Brand name recognition
- Customer service
- Other (please specify):
A Word about Alternative Loans

Proprietary nature of risk scoring methods makes “apples to apples” comparisons impossible

Private loan securitizations are “treasure trove” of information which can be helpful in analyzing these loans (all analysis below from review of two First Marblehead securitizations in 2006-2007)

- Over 70% of loans made at rates higher than LIBOR + 4.50%
- Only 10% of loans made at Tier 1 levels (LIBOR + 0.5% to 3.0%)
- 81-85% of loans came from DTC channel
- Weighted average interest rate rose by 44bp to LIBOR + 5.15% in Aug., 2007
- 84% of securitized loans in August 2007 securitization were co-signed
- Weighted average FICO score of 711-712

Recent sharp reduction in interest rate indexes (Prime Rate and LIBOR) will disguise increases in loan spreads due to increased risk aversion
Analyzing Alternative Loans

- Overall loan approval rates
  - Credit crunch heightens importance of availability of loans

- Determine weighted average cost of lender’s alternative loans
  - Loan approval rates (by tier)
  - Loan spreads (by tier)

- Focus on highest credit risk tiers, rather than just Tier 1
  - Usually, a majority of loans occur there
  - Lenders with lowest spread on highest tier loans may be best bet

- May be appropriate to have segmented lists
  - Lenders with best Tier 1 pricing
  - Lenders with best pricing for lower tier segments

- Borrower benefits
  - Standard seems to be interest rate reduction tied to auto-debit

- Analysis of lender loan portfolio with school’s borrowers becomes critical piece of information
Alternative Loan Terms and Conditions

- Identify both real and hidden costs
  - Origination fees
  - Repayment fees
  - Prepayment penalties
  - Late fees
  - Other fees

- Survey students and parents to understand what is important to them
  - Repayment options
  - Fees

- Analyze interest rate capitalization policies following deferments and forbearance

- Given that standardized loan term is pushing 20 years, absence of prepayment penalties has become quite important for those able to pay off balances sooner
Lessons Learned
Lender Selection Process

A well-organized, objective and analytical approach to lender selection is well worth the effort
- Opportunity to create significant savings for your student borrower
- Opportunity to minimize potential risks in the marketplace
- Given the headlines, students and parents increasingly look to financial aid office to solve their financing problems
- Meets new regulatory requirements

The current student lending environment will require more vigilance and attention on the part of financial aid officers
- Modification of lender borrower benefits and pricing terms
- Lenders suspending operations for FFEL and Alternative loans
- New legislation and regulation
Your lender selection team selects from a set of key criteria to rate lenders and weights those factors based on your priorities.

SLA manages all other elements of RFI process:
- Designs comprehensive, customized and time-tested Request for Information (RFI)
- Invites large group of lenders to participate to find your students the best deals
- Analyzes lender responses to RFI incorporating financial modeling and proprietary research
- Summarizes key findings to assist you in making final lender selection
- Customized calculation to indicate the value your lender list is providing to your students
Update your lender selection analysis as lenders change their terms and pricing

Proprietary surveys to measure customer service levels from student and financial aid officer perspectives.

Timely updates on policy and legislative changes that impact your FFEL and Alternative lending programs

Monthly **Inside Student Lending** newsletter with bonus sections for SLA subscribers

Frequent webinars on timely topics that matter to you

Help line to provide you with customized assistance to your student lending questions throughout the year

Coming soon
- This Week in Student Lending – recap of weekly news and events
- White papers providing in-depth analysis of Student Lending marketplace
For more information about SLA and our RFI+ services, please contact us at:

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