

Private Lending: Compliance & Transparency

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Agenda

- 01. Private Lending Landscape**
Understanding market trends, key players, and student scenarios that drive private loan usage.
- 02. Student Eligibility & Credit**
Evaluating creditworthiness, alternative solutions, and institutional responses to denials.
- 03. Institutional Code of Conduct**
Required ethics standards, prohibited practices, and annual training requirements.
- 04. Preferred Lender Lists**
Regulatory requirements, selection criteria, and transparency best practices.
- 05. TILA & Disclosure Requirements**
Truth in Lending Act compliance, timing requirements, and institutional monitoring duties.
- 06. Best Practices & Implementation**
Lender evaluation, student counseling, and maintaining compliant processes.

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Understanding the Private Lending Landscape

Current Market Reality
Rising educational costs and federal aid limitations have significantly expanded private loan usage among undergraduate and graduate students seeking to bridge funding gaps through alternative financing options.

 Banks & Credit Unions Traditional financial institutions offering competitive rates and established servicing platforms for student borrowers.	 Fintech Lenders Technology-focused companies providing streamlined application processes and innovative lending solutions.	 State Agencies Government-sponsored programs offering enhanced borrower protections and competitive terms for residents.
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Student Scenario: Maria's PLUS Denial

The Situation
 Maria is a junior whose parents cannot qualify for a PLUS Loan. She has exhausted all federal aid options and is now exploring private loan alternatives to continue her education.

Aid Office Action Steps
 Confirm eligibility for additional unsubsidized loan funds due to PLUS denial. Provide vetted lender list with transparent selection criteria and neutral comparison tools.

Counseling Requirements
 Reinforce 'federal first' messaging during all counseling sessions. Ensure Maria understands the differences between federal and private loan terms and protections.

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Student Eligibility & Credit Factors

640+	40%	90%	100%
Typical Credit Score	Debt-to-Income Ratio	Require Co-signer	Citizenship/Residency Required
<p>Eligibility Assessment</p> <p>Lenders evaluate multiple factors to determine approval and interest rates for private education loans.</p> <ul style="list-style-type: none"> Current enrollment status and academic progress verification. Credit score and credit history review for applicant. Income verification and debt-to-income ratio calculation. 	<p>Co-signer Considerations</p> <p>Most students require co-signers to qualify for competitive private loan terms and rates.</p> <ul style="list-style-type: none"> Co-signer credit score and financial stability assessment. Joint liability understanding and release options available. Impact on both borrower and co-signer credit profiles. 	<p>Alternative Solutions</p> <p>When students don't qualify, institutions must explore all available options before denial.</p> <ul style="list-style-type: none"> State-based or nonprofit private loan programs review. Institutional payment plans and deferred billing options. Budget counseling and debt management education. 	

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Student Scenario: Marcus's Credit Denial

The Challenge
 Marcus is denied a private loan due to poor credit history. His parent is willing to co-sign but already carries multiple private loans, creating additional risk concerns for both borrower and co-signer. The aid office must provide comprehensive guidance while exploring all available alternatives.

Institutional Response Strategy
 First, confirm Marcus's FAFSA is complete and all federal loan options are maximized. Then suggest state or nonprofit lenders with better consumer protections. Provide transparent comparisons and encourage credit counseling to improve future eligibility.

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Institutional Code of Conduct Requirements

Legal Foundation
Required under HEA §487(a)(25) and 34 CFR 601.21. All institutions participating in Title IV programs must establish and maintain comprehensive codes of conduct.

Training & Documentation
[Regulatory Requirement] Annual staff training is mandatory (34 CFR 601.21(b)). All aid office personnel must sign acknowledgment forms (34 CFR 601.21(c)).
 [Best Practice] Public posting of the code on institutional websites is recommended.

Prohibited Practices
[Regulatory Requirement] Revenue-sharing with lenders (34 CFR 601.21(a)(1)), gifts or inducements from lenders (34 CFR 601.21(a)(2)), advisory board compensation from lenders (34 CFR 601.21(a)(3)), and staffing arrangements with lenders (34 CFR 601.21(a)(4)) are strictly forbidden.

Best Practice Implementation
[Best Practice] Maintain public accessibility, require annual staff sign-offs, conduct regular compliance reviews, and coordinate with institutional audit and compliance offices.

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Preferred Lender Lists: Regulatory Requirements

Mandatory List Requirements
While preferred lender lists are voluntary, if maintained they must meet strict federal requirements under 34 CFR 601.10–601.21.

- Include at least two unaffiliated lenders minimum.
- Establish objective selection criteria for all lenders.
- Provide clear disclosure that students aren't required to use listed lenders.
- Review and update annually with documented evaluation process.

Selection & Evaluation Process
Transparent methodology must be established and documented for lender selection and ongoing evaluation procedures.

- Develop weighted scoring criteria for objective evaluation.
- Consider interest rates, servicing quality, and borrower benefits.
- Document compliance record and relationship history factors.
- Maintain public transparency through RFP summary posting.

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Sample Lender Evaluation Criteria

This example demonstrates how institutions can establish objective, weighted criteria for preferred lender list selection. The scoring system ensures transparency and compliance while prioritizing student borrower benefits.

Evaluation Criteria	Weight	Scoring Method	Maximum Points	Documentation Required
Interest Rates	30%	Competitive rate comparison	30	Rate sheets, terms
Servicing Quality	25%	Customer satisfaction scores	25	Servicer ratings, reviews
Borrower Benefits	20%	Repayment options, forgiveness	20	Benefit summaries
Compliance Record	15%	CFPB actions, state issues	15	Regulatory history
Relationship History	10%	Past performance, issues	10	Internal evaluations

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Truth in Lending Act (TILA) Compliance Process

Lender Disclosure Requirements
Lenders must provide comprehensive rate, fee, and term disclosures with 30-day acceptance periods and 3-day cancellation rights.

Self-Certification Mandate
All borrowers must complete self-certification forms confirming federal aid maximization before private loan approval.

Institutional Monitoring Role
Schools must separate federal versus private loan information and clearly explain federal loan advantages to students.

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Sample Code of Conduct Webpage

Institutional Code of Conduct Example

Below is a sample layout showing how institutions can present their Code of Conduct for public access, meeting federal transparency requirements under 34 CFR 601.21.

<p>Prohibited Practices Section</p> <p>Revenue-sharing arrangements, gifts exceeding \$10, staffing arrangements, and advisory board compensation from lenders are strictly prohibited.</p>	<p>Staff Training Requirements</p> <p>Annual training mandatory for all financial aid staff. Signed acknowledgment forms required and maintained in personnel files.</p>	<p>Reporting & Contact Information</p> <p>Violation reporting procedures and contact information for compliance officer clearly displayed for public access.</p>
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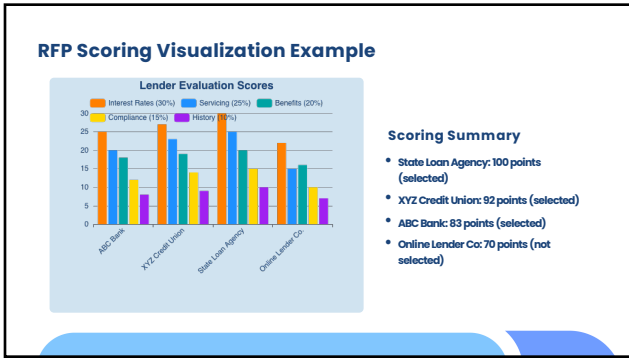
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Sample Preferred Lender List Webpage Layout

This example demonstrates compliant preferred lender list presentation with required disclosures, objective criteria, and transparent selection methodology as mandated by federal regulations.

Lender Name	Interest Rate Range	Borrower Benefits	Servicing Rating	Co-signer Release
ABC Bank	4.99% - 12.99%	Rate reduction, unemployment protection	4.2/5 stars	24 payments, 650+ credit
XYZ Credit Union	5.25% - 11.75%	Graduation reward, autopay discount	4.5/5 stars	38 payments, 700+ credit
State Education Loan Agency	3.95% - 10.50%	Income-based repayment, forgiveness	4.7/5 stars	12 payments, 620+ credit
Online Lender Co.	5.50% - 13.25%	Mobile app, flexible payments	3.8/5 stars	48 payments, 720+ credit

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Required Webpage Disclosures & Transparency Elements

Mandatory Disclosure Language

Federal regulations require specific language on preferred lender list webpages to ensure student understanding and choice.

- 'Students are not required to use lenders on this list'
- 'Students may choose any lender for private education loans'
- 'This institution receives no financial benefit from these lenders'
- 'Selection criteria and evaluation methodology available upon request'

Transparency & Accessibility Requirements

Institutions must provide easy access to selection criteria and evaluation processes for public review and compliance verification.

- Public posting of RFP criteria and scoring methodology
- Contact information for questions about lender selection
- Annual review dates and update schedules clearly posted
- Links to lender websites and application processes provided

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Discussion Questions & Knowledge Sharing

Interactive Discussion Prompts

These discussion questions are designed to facilitate knowledge sharing among financial aid administrators with varying levels of experience in private lending compliance.

Preferred Lender Lists

- What challenges do you face maintaining compliant lender lists?
- How do you document your lender selection criteria?
- What transparency measures work best at your institution?

Documentation & Counseling

- How are you documenting private loan counseling sessions?
- What tools help ensure consistent messaging?
- How do you handle complex eligibility situations?

Oversight Tools

Which vendor evaluation methods have proven most effective?

Resource Sharing

Examples of compliant webpages and RFP rubrics to share.

Communication Templates

Student communication templates that ensure compliance.

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Private lending with purpose means empowering students through informed financial literacy while ensuring compliance protects both borrowers and institutions.

— Core Principle for Financial Aid Administrators

This philosophy emphasizes that effective private lending oversight serves multiple goals: student empowerment through education, institutional compliance through vigilant monitoring, ethical partnerships with transparent lenders, and protection of institutional integrity through documented processes.

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Disbursement Week Surge: Preparation Strategies

Private Loan FAQ Development

- Create standardized responses for common private loan questions.
- Include federal aid comparison information in all materials.
- Provide clear timelines for application and disbursement processes.

Counseling Script Standardization

- Develop consistent messaging across all staff interactions.
- Ensure federal-first principles are reinforced in every conversation.
- Include required disclosure information and borrower rights.

Staff Training & Coordination

- Train all staff on compliant private loan counseling techniques.
- Establish clear escalation procedures for complex situations.
- Coordinate with bursar and student accounts for payment timing.

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Balancing Student Demand Responsibly

Federal-First Counseling

Maintain consistent federal-first messaging across all staff interactions. Ensure students understand federal loan advantages including fixed rates, income-driven repayment, and forgiveness options.

Unbiased Comparison Tools

Provide objective comparison resources and web tools. Partner exclusively with transparent, compliant lenders. Avoid preferential treatment or marketing arrangements that could bias student decisions.

Documentation & Monitoring

Document all counseling interactions thoroughly. Maintain detailed lender evaluation records. Establish systematic monitoring procedures to ensure ongoing compliance and student protection.

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Direct Marketing & Student Contact Management

Prohibited Direct Marketing

Lender-branded communications sent directly to students violate HEA §487 and undermine institutional counseling integrity. All vendor outreach must be routed through the financial aid office to maintain compliance and student protection.

Student Education & Protection

Educate students to verify all communication sources and report suspicious contacts. Provide clear guidance on identifying official institutional communications versus unauthorized lender marketing materials.

Institutional Response Protocol

Issue immediate cease-and-desist orders for unauthorized communications. Remove non-compliant lenders from preferred lists. Document all violations and report to appropriate regulatory authorities when necessary.

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Evaluating & Monitoring Lenders: Due Diligence Framework

Comprehensive Due Diligence Process
Financial aid administrators must establish systematic evaluation procedures to ensure lender partnerships meet regulatory standards and serve student borrower interests effectively.

Financial Stability Review <ul style="list-style-type: none"> Assess lender financial health and regulatory capital ratios Review credit rating agency assessments and market position Evaluate servicing reputation and borrower satisfaction scores 	Borrower Benefits Analysis <ul style="list-style-type: none"> Compare repayment flexibility and hardship assistance options Review interest rate reduction programs and loyalty benefits Assess co-signer release policies and qualification requirements 	
Red Flag Indicators Hidden fees or uncapped variable interest rates.	Marketing Concerns Aggressive tactics or unclear repayment term presentations.	Service Issues Poor customer service or unresolved borrower complaints.

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TILA Violation Response: Lisa's Case Study

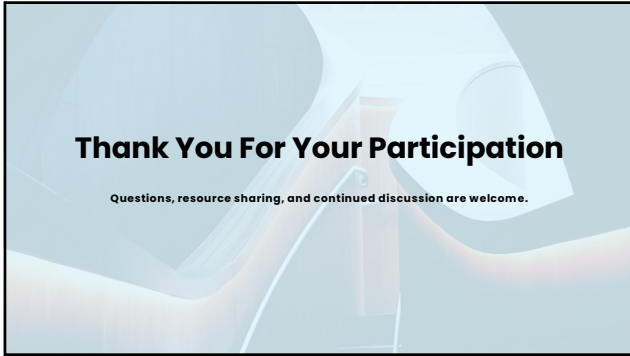
The Violation Scenario

- Lisa's lender failed to provide required TILA disclosures within mandated timeframes.
- Student received loan approval without proper self-certification completion.
- Institutional oversight identified the compliance failure during routine monitoring.

Required Institutional Response

- Report systemic violations to CFPB or appropriate state regulator immediately.
- Remove or suspend lender from preferred list pending full correction.
- Counsel Lisa on cancellation rights and assist with compliant lender reapplication.

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