September 26, 2007

UNIVERSITY OF CALIFORNIA POLICY ON EDUCATION LOAN PRACTICES

In 1994, The Regents established a financial aid policy based on the principle that financial considerations should not be an insurmountable obstacle to student decisions to seek and complete a University degree.

Education loans are an essential source of financial support for many University of California students. The availability of education loans and the financial terms of these loans have a direct impact on the affordability of the University as a whole.

The University's policy related to these loans is guided by two principles:

- The University's practices related to education loans must meet the highest standards of integrity, transparency, and service to students.

- The University has a responsibility to help students and families identify and receive education loans that best meet their needs.

Consistent with these principles, University practices related to education loans will adhere to the requirements that are explained in detail below. Unless otherwise noted, these requirements are effective as of the issuance date of this policy. These requirements supplement the requirements of the University of California Conflict of Interest Code and all other requirements of University policy and federal and state law and regulation. (A partial listing of relevant University policies is included in Appendix A.)

The Office of the Vice President for Student Affairs is responsible for communicating this policy and will periodically review and update the policy, with campus consultation.

All references in this policy to "the University" or to "University employees" apply to the University as a whole, to individual campuses and departments, and to officially recognized alumni associations. All references to "lenders" apply to entities, other than the University and public agencies, that provide education loans to University of California students or alumni. Unless otherwise noted, references to "lenders" also include lenders' affiliated guaranty agencies and loan service providers. (See Appendix B for additional definitions.)

The requirements are grouped into five general areas:

1. Campus participation in selected federal loan programs
2. Practices related to helping students identify and receive loans
3. University employee relationships with lenders
4. University institutional relationships with lenders
5. Alumni association relationships with lenders

1. *Campus participation in selected federal loan programs*

   In meeting their responsibility to help students and families identify and receive loans that best meet their needs, campuses choose which federal loans to make available to students. Federal Stafford, PLUS, and Grad PLUS loans are available under two programs: the Direct Loan Program (DLP) and the Federal Family Education Loan Program (FFELP). The federal government has provided loans under both programs since 1993 so that students may benefit from a competitive loan marketplace. The relative advantages and disadvantages of each program vary over time in response to changes in the marketplace and changes in federal law and regulation.

   Federal law permits institutions to participate in one or both programs. Campus decisions regarding program participation have been based on each campus's assessment of the merits of each program given the particular needs of its student population and the campus's operational capabilities. These decisions have resulted in historical investments and practices consistent with each program.

   a. In order to enable borrowers to choose the education loan that best meets their needs, each campus is encouraged to permit students to borrow from the federal loan program of their choice.

   b. In deciding which Federal education loan program(s) to participate in, each campus will give priority to how the programs serve their borrowers' interests based upon the following factors:
      - The financial terms of the loans, at origination and in repayment, available under each program
      - Loan features available under each program
      - The quality of lender service to borrowers over the lifetime of the loan, including origination and repayment
      - Relevant characteristics of the campus student population that can differentially affect students' interests under each program

      In addition, campuses may give secondary consideration to the following factors:
      - Campus resource and operational requirements under each program
      - Conversion costs associated with participating in a different program, or in both programs

   c. Each campus will clearly document how each factor was objectively measured and weighed to reach its decision.

   d. Each campus will re-evaluate its decision, at a minimum, every five years.

2. *Practices related to helping students identify and receive loans*

Campuses may help students to identify the FFELP loans (at campuses that participate in the FFELP program) and/or the private loans (at every campus) that best meet their needs in a number of ways, including counseling of individual students; debt management workshops; interactive web tools that allow students to identify loans with borrower-specific criteria; and preferred lender lists.

In a complex loan marketplace, a carefully constructed preferred lender list, compiled free of lender influence, can be a particularly valuable tool for students and families in identifying the loan that best meets their need. The provisions below apply to FFELP loans at campuses that participate in that program and to private loans at every campus.

Provisions related to the development and communication of preferred lender lists apply to lists established for the 2008-09 and subsequent academic years.

a. In order to help borrowers and their families identify the loan that best meets their needs, campuses should make preferred lender lists available to their students.

b. Lenders will be selected for inclusion on a preferred lender list based solely on their ability to serve the best interests of borrowers. The selection mechanism should utilize a rating system that includes the following factors, objectively measured and documented, along with a weight for each factor in a loan's overall rating:
   - The financial terms of the loan, at origination and in repayment
   - Loan features (e.g., eligibility requirements)
   - The quality of lender service to borrowers over the lifetime of the loan, including origination and repayment.

c. Any preferred lender list presented to students must include, at a minimum, the following elements presented in an easily understandable format:
   - the terms, benefits, and other relevant features of loans on the list presented in a standardized format that facilitates comparisons (e.g., a table or matrix)
   - the factors used to select loans for inclusion on the list
   - clear notification that students and families are free to select lenders that do not appear on the list
   - an assurance the campus will process applications for lenders who do not appear on the list as expeditiously as possible

d. Campuses are encouraged to review preferred lender lists annually and to update the list as appropriate. At minimum, campuses must review and update their lists every three years.

e. In addition to providing preferred lender lists, a campus may refer students to third-party websites that allow students to search for additional loans based upon borrower-specific criteria. If it does so, however, the campus must inform students that the University provides this referral as a service and not as an endorsement of the products mentioned on the website. The campus must also advise potential borrowers whether the site was developed and/or funded by lenders seeking to market their products or services to borrowers.

f. A campus's evaluation and selection of third-party software, information systems, or networks (e.g., ELMNet or OpenNet) to originate and process education loans should be based upon the best interest of borrowers.

g. No campus may promote or appear to promote any lender that has not been selected for inclusion on a preferred lender list pursuant to the criteria described in (b), above, except as provided for in Section 5, below, regarding alumni associations.

h. The Office of the President will assist campuses by working with them to develop a common system for rating available loan products. An individual campus may request approval to use a different rating system only if the system meets the requirements described in (b), above, and the decision to use the alternative rating system is documented, explained, and approved by the campus Chancellor.

i. Each year, the Office of the President will conduct a Request for Information (RFI) or comparable process to collect information about available loan options and their respective terms and services to facilitate the rating process described in (h), above.

j. To assist students in making informed decisions, the Office of the President will consult with campuses to develop a common, system-wide template for presenting preferred lender lists to students.

k. The Office of the President, in collaboration with each Chancellor, is responsible for periodically reviewing system-wide and campus practices to ensure that they are consistent with this policy.

3. *University employee relationships with lenders*

University employees have historically interacted with lenders in a variety of contexts, including professional association meetings and industry conferences, service on lender advisory boards, and routine interactions related to student loan administration. The continuing value of such interactions is the exchange of information to inform University decision-makers about the range of products and services available to students, and to help lenders improve the products and services available to UC students.

All employees are subject to the University of California Conflict of Interest Code and the Ethics in Government Act. While these codes do not restrict University employees from giving advice to or receiving information from outside entities, they do prohibit University employees from participating in certain decisions affecting an outside entity. The prohibition applies if the University employee has received a gift – including, in general, reimbursement for meals and travel expenses – from that entity in excess of a specified amount. In addition, individuals who are defined under California law as "designated officials" are entirely prohibited from receiving gifts above a specified amount.

Employees are also subject to the University of California Policy and Guidelines Regarding Acceptance of Gifts and Gratuities, which stipulates that "In addition to the requirements of law, University officers and officials must avoid the appearance of favoritism in all of their dealings on behalf of the University. All University officers and employees are expected to act with integrity and good judgment and to recognize that the acceptance of personal gifts from those doing business or seeking to do business with the University, even when lawful, may give rise to legitimate concerns about favoritism depending on the circumstances."

The following requirements also apply to certain University employees, as specified:

a. University employees whose job responsibilities, directly or indirectly, involve the development of preferred lender lists or communicating with students about their education loan options are required to complete conflict of interest training annually.

b. Any University employee whose job responsibilities, directly or indirectly, involve the development of preferred lender lists or communicating with students about their education loan options must disclose any potential financial interest in a lender or any offer of a gift from a lender to his or her supervisor or other appropriate University official. The appropriate official will make a determination as to whether the individual has a potential or perceived conflict based on the financial interest or gift and will determine the proper course of action. No conflict of interest concerns attach to gifts of nominal value items such as pens, key chains, and other inexpensive novelties.

4. *University institutional relationships with lenders*

No relationship between the University and a lender may compromise the University's ability to help students and their families identify and receive the best loans. University-lender relationships must conform to the highest standards of integrity, transparency, and service to students.

The University's mission is supported by financial support from public and private entities, including corporations and business concerns. Examples include sponsored research initiatives, corporate-sponsored scholarships and symposia, and corporate programs that match charitable contributions made by the corporation's employees. The provisions below are designed to maintain a clear distinction between general corporate support for University activities and relationships related to education loans.

a. The University will not accept any payment or other benefit from a lender in exchange for inclusion on a preferred lender list.

b. The University may take into consideration whether to include a lender on the preferred list based on the lender’s preferential terms to University of California borrowers. The terms negotiated with the lender must justify inclusion on the list based on the selection criteria described in Section 2(b), above.

c. The University may accept services, resources, or other benefits related to financial aid administration from a lender only if all of the following conditions are met:

- The services, resources, or other benefits must be shown to be either (a) in the best interest of borrowers or (b) neutral to borrower interests and beneficial to student interests generally;

- Acceptance of the services, resources, or other benefits must not compromise, or appear to compromise, the University’s ability to help students and families identify and receive education loans that best meet their needs; and

- The nature of the services, resources, or other benefits and its justification must be documented by the campus Financial Aid Director and approved by the campus Chancellor.

Examples of such services, resources or other benefits include but are not limited to:

- Equipment or supplies for use in student loan processing or for other financial aid administration purposes – including information systems, software, or network interfaces (e.g., ELMNet or OpenNet) – that are gifted or provided at below-market cost (rental, license fee, or purchase).
- Allowing lenders to print or distribute college catalogs, financial aid handbooks, or other official university publications or materials related to financial aid, or to host University websites related to financial aid, at reduced or no cost.
- Accepting fees for advertisements in any University publication that is related to financial aid.
- Accepting services for any activity required by federal or state statute or regulation (e.g., entrance and exit counseling sessions to borrowers) as a condition of making education loans available to students or parents.

d. Employees or agents of lenders who interact with borrowers through call centers, counseling, or other means may not identify themselves as University employees.

e. The University may accept and use collateral information materials provided by a lender that describes their products and services. Such materials and their display or distribution on campus must conform to all relevant campus policies.

f. The University may accept and use any generic informational materials developed or provided by lenders (e.g., materials describing the financial aid application process or outreach materials) only if the materials include a disclosure that they were provided by the lender and the materials do not promote or otherwise encourage students to use the lender’s products.

5. *University of California Alumni association relationships with lenders*

University of California alumni associations support the University of California's mission in numerous ways. The following provisions apply in cases where an officially recognized alumni association seeks to work with a lender to provide education loans (including consolidation loans) to enrolled or former University of California students and their families.

a. University alumni associations must conform to all applicable federal and state laws and regulations regarding the relationships between school-affiliated organizations and lenders.

b. Before entering into or substantially revising any agreement with a lender regarding the provision of education loans, alumni associations must:

    - consult with campus financial aid offices about the terms of the lender's products and the quality of their service; and

    - secure the Chancellor's approval on the proposed agreement, by submitting the proposal along with any assessment provided by the campus financial aid office

c. Each alumni association that has entered into a relationship with a lender to provide education loans to current or former University students must ensure that the following information is disclosed to each potential borrower prior to completion of the loan application:

    - A description of any benefit provided by the lender to the University (including the alumni association) in exchange for the opportunity to market the lender's loan to the borrower

    - Notification that neither the University nor the alumni association makes any claim regarding the terms of the lender's loans, and that other lenders may offer either better or less-favorable terms

Appendix A
Other Relevant University Policies

Regental Policies

The University of California Financial Aid Policy

Policy on Outside Professional Activities of the President, Principal Officers of The Regents, and Officers of The Regents

Presidential Policies and Statements

Statement of Ethical Values and Standards of Ethical Conduct

Conflict of Interest Policy and Compendium of Specialized University Policies, Guidelines, and Regulations Related to Conflict of Interest

- Available at http://www.ucop.edu/ucophome/policies/bfb/g39toc.pdf

Appendix B
Definition of Terms

Direct Loan Program: A federal program that provides Stafford, PLUS, and GradPLUS loans that are both guaranteed and funded by the federal government. Loans are administered by the federal government and funds are provided by the government directly to students and their parents through their schools. Banks and guaranty agencies are not involved in the process. Six of the University's ten campuses participate in the DLP; the other four campuses participate in the Federal Family Education Loan Program.

Education loans: Loans issued to students and their families specifically for the purpose of helping families to cover the cost of college attendance. They include loans provided under various federal programs (e.g., Perkins, PLUS, and GradPLUS loans) and private loans provided by private lenders.

Federal Family Education Loan Program (FFELP): A federal program that provides Stafford, PLUS, and GradPLUS loans in which loans are funded and administered by private lenders and guaranteed by the federal government through state guaranty agencies. Four of the University's ten campuses have a significant volume of FFELP loans.

Financial terms of a loan: Loan features that influence the cost of the loan to the borrower. These include the interest rate; fees that are charged or waived; discounts that are available to all borrowers; and discounts that must be "earned" by borrowers (i.e., discounts that are contingent upon borrower behavior, such as enrolling in an automated payment plan or making a series of on-time payments). These terms may be set by the lender and/or by the guaranty agency used by the lender.

Gift: Generally, any payment for which the recipient does not provide equal or greater consideration in return, consistent with the meaning of "gift" under the Political Reform Act. A complete definition of this term with specific examples is found in the University of California Policy and Guidelines Regarding Acceptance of Gifts and Gratuities by Employees Under California's Political Reform Act.

Grad PLUS loan: A low-interest, federally guaranteed loan available to eligible graduate students to help pay for their education expenses. Grad PLUS loans are available under both the Direct Loan Program and the Federal Family Education Loan Program.

Guaranty agency: A state agency or private, nonprofit organization that administers a student loan insurance program for loans issued under the FFEL program.

Loan service provider: An agency employed by a lender to service (disburse and/or collect) a student loan account. Often, the borrower will deal with the loan servicer when there are questions about repayment. Servicers also approve deferments and forbearances on the lender's behalf.

PLUS loan: A low-interest, federally guaranteed loan available to eligible parents to help pay education expenses. PLUS loans are available under both the Direct Loan Program and the Federal Family Education Loan Program.

Preferred lender list: A roster of lenders compiled by an institution and presented to students to assist them in selecting a lender for a FFEL or private loan. Students are not precluded from borrowing from lenders that do not appear on an institution's preferred lender list.

Private (or alternative) loan: An education loan offered by a lender, excluding loans offered under a federal loan program. These loans are not guaranteed by the federal government and they typically carry higher rates than federal loans.

Stafford loan: A low-interest, federally guaranteed loan available to eligible students to help pay for their education expenses. Stafford loans are available under both the Direct Loan Program and the Federal Family Education Loan Program.