

THE STUDENT LENDING INDUSTRY HAS BECOME BIG BUSINESS.

These days, having a college degree is more and more important to future success later in life. However, with tuition costs constantly rising, paying for that education is becoming increasingly difficult for many young people. To help cover these rising costs, students and their families are increasingly opting to take out loans.

As a result, the student loan industry has become big business; students borrowed approximately \$85 billion for postsecondary education in the academic year 2005-2006.

Recently, the New York State Attorney General's Office began an investigation into the student loan industry. The inquiry concerns incentives that certain student loan companies may be offering or providing to secure placement on schools' "preferred lender" lists, as well as other lender activity which might create conflicts of interest and compromise the interests of individual student borrowers.

The Attorney General is providing this guidance to students and their families so that they will have the information they need to make smart decisions when choosing how to finance their education.

FACTS TO CONSIDER - SOME BASICS:

If you have been awarded financial aid at your school, you will receive a financial aid award letter. This letter may contain a range of financial aid options, including grants (which you do not have to pay back), loans (which you do have to pay back) and work-study (employment at the



school). Among the loans that may be offered to you are Stafford loans (either subsidized or unsubsidized) and PLUS loans (usually taken out by either parents of undergraduates or by graduate students them-

selves). These loans are guaranteed by the federal government and are known as Title IV loans. In addition, your award letter, or your school's financial aid office, may suggest that you finance a part of the cost of attendance with alternative loans from private lenders. These loans are neither subsidized nor guaranteed by the federal government.

STUDENT LENDING

some facts to consider



PRESENTED BY

The State of New York Office
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Under federal law, you have the right to use the lender of your choice.

Many schools have so-called “preferred lender” lists. These are lenders that the school has decided to recommend to their students. However, you should be aware that just because a lender is on the “preferred lender” list, that does not mean that the particular lender is the best one for you to use. You should also be aware that this office has found connections between “preferred lenders” and schools whereby schools receive significant economic benefits from the students business, and these connections may be conflicts of interest or deceptive business practices under New York State law. You should shop around for loans with the best terms (factoring in repayment terms, as well as lenders’ reputations for abusive collection practices). Ask questions such as:



- How were the preferred lenders selected?
- What benefits do the preferred lenders offer the students?
- What benefits or payments do the preferred lenders offer the school?

Remember, when completing a Master Promissory Note for a student loan, you are entitled to substitute lenders of your choice for the school’s preferred lenders that may appear on a pre-printed Note or in a drop-down menu on an electronic form. If you are not permitted to insert your chosen lender, please call the Attorney General’s consumer hotline at the telephone number at the end of this brochure.

The interest rates for Stafford and PLUS Loans are set by federal law.

Accordingly, many lenders compete on repayment benefits - on the “back-end” of the loans. For example, one lender will offer to cut your rate 1.5% if you make 24 on-time payments in a row, while another will offer to cut your rate 2% if you make 36 on-time payments in a row. Although this competition is legal, there are two important things to keep in mind with regard to advertised back-end benefits. First, very few students actually make enough on-time payments in a row to qualify for the rate discount; if you have made 22 on-time payments in a row and payment number 23 is late, you will not receive the discount. Second, many lenders sell their loans on a secondary market. This means that even if you select Bank A as your lender, Bank A may turn around and sell your loan to Bank B. It is important to make sure that if your loan is sold, the “back-end” benefits will travel with the loan. In some instances, the sale of the loan will terminate the very benefits that caused you to take out that particular loan in the first place! To preserve these benefits, have your lender commit to them in writing. If your lender refuses, call the Attorney General’s consumer hotline.

Be aware that “signature” loans from a university are likely to be sold to a lender.

If the school offers you a “signature loan,” i.e., a loan that contains the name of the school, you still need to determine whether this loan is in your best interest. Ask: has the school made any arrangements with lenders to service or sell these loans? You’ll probably be making payments to a lender or servicer, not to your school.

You always have the right to substitute another lender for the school’s signature loan. So shop around.

Make sure to keep copies of all the solicitation/advertising materials you receive from your lender or from your school.

In many cases, the rates that are advertised to you do not appear in any of the actual loan documents that you sign. Therefore, it is important to keep the advertisements where these rates appear so that you will be able to document the promises made to you by your lender when it comes time to start repaying your loan years later.

Remember, although your school is there to help you, you should do your own research and make your own financial decisions. A student loan is a serious and significant financial commitment; failure to repay your loan can have a long-lasting negative impact on your credit. Defaulting on your loan could prevent you from owning a car or a house one day, and it is virtually impossible to eliminate student debt by declaring bankruptcy except in extreme cases of hardship. Ask tough questions of potential lenders and your school financial aid office. The thoughtful decisions that you make today will make repaying your loan that much easier in the future.

For further information on the Office of the Attorney General’s activities regarding your rights in student lending:

The Attorney General’s Hotline:

1-800-771-7755

www.oag.state.ny.us