Shepherd College Board of Governors
November 13, 2003
Agenda Item No. 8

DIRECT LENDING

Shepherd College has taken initial steps toward leaving the Direct Loan Program and offering students Federal and alternative loans through a private guarantor, using one or more lenders. The private sector has in recent years matched and exceeded the program offerings of direct lending, so the reasons that brought Shepherd into the Direct Loan Program in 1994 are no longer issues. Shepherd’s loan volume is around $10 million.

The Financial Aid Office staff has analyzed the positive and negative factors associated with a departure from direct lending and has concluded that such a move would benefit students as well as the internal operations of the Financial Aid Office. With a return to private sector lending, the students would gain at the front end, with the availability of zero origination fees, and at the back end, with on-time and electronic debit incentives leading to lower interest rates on repayment. The Financial Aid Office would benefit from a reduced workload in the areas of reconciliation and promissory note handling, both of which are time and labor intensive. Much of the burden for creating publications and notifying students of the upcoming change would become the responsibility of the private vendor.

The recommendation of the Financial Aid Office staff is that Shepherd contract for these services with American Education Services (AES), the West Virginia guarantee agency. AES is the national guarantor and lender formerly known as PHEAA – the Pennsylvania Higher Education Assistance Agency. As PHEAA, the corporation still manages the highly regarded Pennsylvania State Grant Program.

AES is the parent corporation of WVMentor, which is the West Virginia version of a national system that encompasses all phases of college awareness, beginning at age 13 and continuing through the college application process. The West Virginia Higher Education Policy Commission has contracted with AES to use WVMentor and its offspring, WVApply, as the official websites for the PROMISE Scholarship and other state program applications.

The cost-benefit analysis of direct lending versus private sector lending began at Shepherd several years ago. The issue has been studied extensively by the Financial Aid Office, and various groups have been included in the discussion, including Administration and Finance, Admissions, and Student Affairs.

Meanwhile, an article about the private lending industry recently appeared in US News and World Report, claiming that private lending is costing the American taxpayers millions of dollars while the Direct Loan Program is actually generating revenue for the Federal Government. The article indicated that this is due, in large part, to questionable practices within the private lending industry. One of those questionable practices, an ‘opportunity pool’ of funds to be used by each school for whatever it deemed necessary, was highlighted in the article. The National
Association of Student Financial Aid Administrators (NASFAA) has reported that several members of the US House Committee on Education have called for a hearing to investigate the allegations made in the *US News* article. The article referenced the Sallie Mae Foundation; AES is not implicated in this controversy.

While it appears that Shepherd students would benefit from private sector lending and that the work load of the Financial Aid Office would be reduced, it is important to avoid a change that might give the appearance of compromising the integrity of the College. The Financial Aid Director and her staff have worked diligently to build and maintain confidence in the Financial Aid Office and it is crucial that nothing is done to jeopardize its relationship with students, parents and colleagues.

The Board’s Academic, Student and Campus Affairs Committee is asked to discuss this issue at the Board’s November meeting. No formal action by the Board is required at this time, although guidance is needed.