



**What is the School as Lender Program?**

Under the Federal Family Education Loan (FFEL) Program, the federal government authorized approved colleges and universities, banks, and other lending institutions to offer government loans to graduate students. Approximately 157 colleges and universities across the country participate and are known as "schools as lenders". The institutions are bound by federal regulations and audited routinely. The federal law prohibits school as lender participants to offer loans to undergraduates.

**Does Duquesne University participate in the program?**

Yes. The University is approved to participate in the federally established and monitored School as Lender Program, directly offering loans to graduate students. Duquesne's program was initiated in August 2003.

**What organization oversees the program?**

The federal government oversees the program. All university participants are subject to routine audits by the government. Duquesne underwent a federal audit in August 2006, and was found to be in full compliance with the program regulations.

**Is the School as Lender program beneficial to students?**

Yes. School as Lender loans are the best deals on the market for students because, by law, schools must offer lower interest rates compared to direct, for-profit or other private loans. Additionally, students avoid paying loan origination fees. According to a 2005 Governmental Accountability Office (GAO) report, students have benefited from schools joining the School as Lender Program. In 2006, Congress required all school lenders to offer loans that have lower fees or lower interest rates than the maximum allowed by law.

**Do universities earn revenue from the loans?**

Yes. The universities fund the loans from their own assets and then sell the loans to private banks. The proceeds from those sales are put into financial aid, which provides more need-based aid for more students. Schools are federally required to use 100% of the revenue they earn from loans for need-based scholarships and grants for students. According to a 2005 GAO report on the program, "school lenders either used money to lower borrowing costs and/or provide need-based grants to its students, (p.20)." The report also notes that for many school lenders, financial benefits to students were better than those offered prior to the school becoming a lender. In 2006, Congress required all school lenders to offer loans that have lower fees or lower interest rates than the maximum amount set for the program. While proceeds from School as Lender loans are used to fund need-based financial aid, without the program this money would not further benefit students, because banks and other lenders are not federally required to use the revenue to help provide more aid.

**How does the school earn revenue from the loan?**

Just as in other lending arrangements, such as a loan for a mortgage, the loans are resold to a private bank. Universities make a return on the investment of their assets in the loans in this exchange. In effect, universities gain revenue by selling the loans at a higher price to banks and financial institutions.

**Does reselling the loan impact the student borrower?**

No. The resale of the loan does not change the loan's terms, and does not negatively impact the student.

**What is the revenue from the School as Lender loans used for?**

Schools must use 100 percent of the revenue earned from the loans for need-based scholarships and grants for students. This helps other students.

**How much does Duquesne make from selling the loans?**

This year, the University is anticipating approximately \$1.1 million, all of which will be used for need-based financial aid grants to students. Overall, Duquesne provides approximately \$50 million dollars annually in financial aid.

**Is it appropriate for schools to become lenders, given that they determine the amount a student can borrow and are also setting the price of tuition?**

School lenders have some of the lowest default rates when compared to other FFEL lenders, including Sallie Mae, corporate banks and the Direct Loan Program. In fact, some school default rates are the lowest in the student loan market, which indicates that schools are not encouraging students to take on more loans than they can afford. Moreover, the grant assistance earned from school lending helps to lower the cost of education for needy students attending the institution.

**As lenders, wouldn't schools have an incentive to drive up student borrowing?**

No. The Higher Education Act was amended in 2005, requiring all school lenders to return 100 percent of program revenue to need-based scholarships or grants for students. According to the 2005 General Accountability Office report, schools cited the main reason for becoming lenders was to use the revenue earned from the program to "lower student borrowing costs or provide need-based aid."

**How big is the School as Lender Program in the overall federal student loan market?**

The School as Lender loans account for \$1.5 billion of the \$66 billion market in new federal student loans. According to the U.S. Department of Education, in 2007, for-profit commercial, nonprofit and public agency lenders participating in FFEL will make about \$52.4 billion in new loans and the federal government will make about \$13.6 billion under the Direct Student Loan program. The School as Lender Program is a small, but important, part of the overall federal loan market.

**What would happen if the School as Lender Program is eliminated?**

Eliminating the School as Lender Program would increase costs to graduate students and needy students would lose access to billions of dollars that are made available to them through the grants that the program provides. In December 2006, a Midwestern University survey of 43 school lenders found that these schools provided more than \$50 million in grants to students last year alone. If the program were cut, all of this money would disappear and needy students who receive grants would be forced deeper into debt or find that they can no longer afford their education. Need-based scholarships would be reduced, profits from loans would be funneled to corporate lenders and competition would be reduced.

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