DOCUMENT RESUME

ED 234 732 HE 016 693

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TITLE	Guaranty Agency Questionnaire.
INSTITUTION	National Commission on Student Financial Assistance, Washington, DC.
SPONS AGENCY	Congress of the U.S., Washington, D.C.
PUB DATE	19 Jul 83
NOTE	9p.; For related documents, see ED 228 926-975, HE 016 690, HE 016 692-695, and HE 016 697.
PUB TYPE	Reports - Research/Technical (143) -- Tests/Evaluation Instruments (160)
EDRS PRICE	MF01/PC01 Plus Postage.
DESCRIPTORS	Banking; College Students; *Credit (Finance); *Eligibility; Federal Regulation; *Financial Aid Applicants; *Financial Policy; Higher Education; Out of State Students; Questionnaires; *Student Loan Programs
IDENTIFIERS	*Guaranteed Student Loan Program; *National Comm on Student Financial Assistance

ABSTRACT

The extent to which guaranty agencies, lenders, and state secondary markets impose restrictions on Guaranteed Student Loan (GSL) borrowing that go beyond federal regulations was assessed through a survey of 53 guaranty agencies. Seventeen of the agencies imposed restrictions on GSLs that go beyond federal regulations, including not loaning to borrowers from correspondence schools, part-time students, or out-of-state students. A total of 49 agencies used commercial lenders, and the most common restrictions imposed by the lenders were the requirement of a previous customer relationship and an unwillingness to lend to out-of-state students and students enrolled in less-than-two-year programs. For the 13 agencies using direct lenders, the most common restriction imposed on borrowers was the unwillingness to lend to out-of-state students. Of the 24 agencies operating a secondary market, 7 imposed restrictions, including the following: a requirement of a minimum balance of $1,000 on loans they will purchase, an unwillingness to purchase loans made either to students from out-of-state institutions or to out-of-state borrowers attending institutions in the guaranty agency's state, and an unwillingness to purchase loans from borrowers from institutions with certain default rates. (SW)

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Guaranty Agency Questionnaire

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July 19, 1983

GUARANTY AGENCY QUESTIONNAIRE

The National Commission on Student Financial Assistance conducted a survey of guaranty agency directors to assess the extent to which guaranty agencies, lenders and state secondary markets impose restrictions on GSL borrowing which go beyond federal regulations.

The survey was conducted to learn the perspectives of guaranty agency directors on the scope of this issue. Agency directors' were asked for their best estimation of the proportion of certain restrictions imposed by lenders. The responses do not reflect the volume of loans in each state.

FINDINGS

Of the 56 questionaires sent to guaranty agencies, 53 were returned.

Commercial Lenders (see Table 1)

Forty-nine agencies reported using commercial lenders. The three most often-cited restrictions were:

o The most common restriction imposed by commercial lenders was the requirement of a previous customer relationship.

A large majority (37) of agencies reported having between 25 percent and 89 percent of their commercial lenders requiring a previous customer relationship before they would make a loan.

Six agencies reported having between 5 percent and 24 percent of their commercial lenders imposing this restriction, while 5 agencies reported that virtually no commercial lenders required a previous relationship. One agency reported that nearly all commercial lenders require a previous customer relationship.

o The second most common restriction by commercial lenders was their unwillingness to lend to out-of-state students attending schools in their state.

Twenty-four agencies reported having between 25 percent and 89 percent of their commercial lenders imposing this restriction.

Thirteen agencies reported virtually no out-of-state student restrictions, while 8 agencies reported that a small minority, between 5 percent and 24 percent, of their commercial lenders imposed this restriction. Five agencies reported that virtually all of their commercial lenders imposed this restriction.

o The third most commonly reported restriction by commercial lenders was imposed on students planning to enroll in less-than-two-year programs.

While 30 agencies reported that almost no lenders imposed this restriction, 13 reported that between 5 percent and 24 percent of commercial lenders restricted borrowing, 10 reported that 25 percent to 74 percent of commercial lenders restricted borrowing and 2 agencies reported that between 75 percent and 100 percent of their commercial lenders imposed this restriction. One agency reported that lenders will not lend to borrowers attending trade and technical schools that offer a specific type of training.

Direct Lenders (see Table 2)

Thirteen agencies reported using direct lenders. These agencies noted that the most common restiction imposed on borrowers was the unwillingness of direct lenders to lend to out-of-state students attending schools in their state.

Five agencies reported that virtually all of their direct lenders impose this restriction, one agency reported that between 75 percent and 89 percent of their direct lenders impose this restriction, one agency reported that between 25 percent and 49 percent of their direct lenders, and 6 agencies reported that virtually none of their direct lenders imposed this restriction.

Secondary Markets

Of the 24 agencies that reported operating a secondary market, 7 reported imposing certain restrictions. Of these, 2 require a minimum balance of $1,000 on loans they will purchase, 2 will not purchase loans made to students from out-of-state institutions, one will not purchase loans from borrowers from institutions with certain default rates, and one will not purchase loans made to out-of-state borrowers. One agency requires a $3,500 minimum average balance on loan portfolios, and will not purchase loans made to borrowers who have moved out of the market area, failed to respond to written inquiry, have deferments, and are graduate students.

Guaranty Agencies

Of the 53 agencies that responded to the questionnaire, 17 reported that they impose restrictions on GSLs which go beyond federal regulations. Seven agencies will not loan to borrowers from correspondence schools, three will not loan to part-time students, two will loan only to state residents though one of these states has an agreement with an out-of-state lender to provide loans to out-of-state students, one will not loan to borrowers under 21 years of age, one will not loan to theological institutions, one will not loan to students with less than a "C" average, one requires the borrower to be from a certificate/degree awarding institution, and one requires a cosigner. One agency restricts less than full-time undergraduate and graduate students to one-half of the maximum loan amount of either $2,500 or $5,000 per grade level, allows only students who are enrolled in specific five-year programs to receive a "fifth year" loan, and requires that after initial borrowing a student must progress to a higher academic grade level before receiving an additional loan.

Lenders of Last Resort

In response to the question, "Do potential GSLP borrowers in your state have sufficient access to 'Lenders of Last Resort' so that the restrictions imposed by lender and/or secondary markets represent no major problem?", 29 agencies answered "Yes, definetely," 20 agencies answered "Yes, basically no significant problems in access in our state," 2 agencies answered "No, access to loans is restricted to some students," and one agency answered "No, access to loans is restricted to many types of students."