The New York Higher Education Loan Program (NYHELPs)

FILLING THE GAP

A growing number of New York State college students face the need to obtain non-federal private education loans to fill the gap between college costs and State and federal student aid. They are finding these loans are costly and disruptions in the capital markets have made it difficult to secure this vital financing.

The New York Higher Education Loan Program (NYHELPs) will provide students and parents with access to low-cost loans not currently available to New Yorkers in the private loan market.

PROGRAM OVERVIEW

The New York Higher Education Loan Program will be a public/private partnership that makes available up to $350 million annually in private activity bonds for fixed-rate loans and unlimited lender participation in variable-rate loans. These loans will be for New York State residents attending degree-granting postsecondary institutions in New York State that participate in federal HEA Title IV student aid programs.

The State will contribute $50 million in the initial year and $10 million per year thereafter to support default reserve funds and enable favorable borrower interest rates and fees. Students could receive an estimated interest rate between 7.5 and 8.5 percent beginning in the spring semester of the 2009-10 academic year. Actual rates will be subject to market conditions at the time of bond issuance.

These commitments will provide reasonable market liquidity to encourage participating lenders to originate loans. Fixed-rate loans will initially be purchased using proceeds from private activity bonds issued by SONYMA. Additional sources of market liquidity, public and non-public, could also become available as market conditions allow.

The program will be administered by the New York State Higher Education Services Corporation (HESC), the State agency that administers the Federal Family Education Loan program and provides students financial literacy information, debt management and default prevention assistance.

KEY FEATURES

Several key features of NYHELPs will make it a potent and cost-effective source of education funds for students and families:

Low Fiscal Impact

The overall cost of NYHELPs will be supported by State funds, borrower fees and a one-percent college contribution, based on loan dollar volume for each participating institution. HESC and the State of New York Mortgage Agency (SONYMA) will administer the default reserve funds. Lender reimbursement for defaulted loans helps ensure students have continuous access to loans that would not otherwise be available to them.

Consumer Education

Borrowers will be required to complete a financial literacy education program developed by HESC to be eligible for loans. The Web-based program will cover money management, credit, and student loans. This e-learning component of the loan program will help students make smart borrowing decisions, provide guidance on the pitfalls of credit card debt, and emphasize the student's responsibility for paying back student loans. While expanding student access, this program will also help borrowers understand their responsibilities.

HESC will use its considerable experience as a federal student loan guarantor to prevent defaults in the State program by:

- educating borrowers and protecting their credit worthiness through required financial literacy programs;
- providing college staff training on best default-avoidance practices; and
- locating and contacting delinquent borrowers to prevent potential defaults.

Credit Reassessment

NYHELPs will offer variable-rate loan borrowers the ability to request a recalculation of their credit analysis. After two years of on-time payments, a student who establishes a repayment history independent from his or her parents will have the opportunity to benefit from a credit reassessment.

HESC Student Loan Marketplace

The HESC Student Loan Marketplace will be the central application and initial administrative control point for NYHELPs loans. With Marketplace, students will have access to a sophisticated comparison and selection tool to choose among non-federal private loans with only one credit check, preserving their credit scores and ensuring they receive trustworthy information. The Marketplace Web site is designed as an open network to ensure transparency of lender information.

PROGRAM FEATURES

Student Eligibility

To be eligible, a student must:

- be a New York State resident, or have a parent borrower who is a New York State resident, and be enrolled in a degree-granting or professional certificate program in any Title IV eligible degree-granting institution in New York State;
- first apply for, and receive, all State and federal student aid for which they are entitled; the NYHELPs loan would help pay for remaining costs of attendance, as certified by the college;
- be enrolled at least half time and making satisfactory academic progress in a degree, professional licensure, or certificate program;
- have an eligible co-signer who is a New York State resident. Co-signers may be released after 48 on-time payments if the borrower has an acceptable credit score.

College Eligibility

To be eligible to participate in the program, a college must:

- be a HEA Title IV degree-granting institution;
- contribute one percent to program default reserves, based on loan dollar volume participation.

Loan Amounts

Eligible students with eligible co-signers, or eligible parents of students, will be able to borrow:

- annual maximum loan amounts of the lesser of:
    - Cost of attendance minus all other federal and State financial aid (excluding federal PLUS loans), or
    - $10,000 annually*
- cumulative maximum loan amounts of:
    - $20,000 for undergraduates at two-year institutions*
    - $50,000 for undergraduates at four-year institutions*
    - $70,000 for undergraduate and graduate study combined*

*Preliminary, subject to change

Interest Rates and Fees

Interest rates for fixed-rate loans will be set after SONYMA bonds are issued. Variable interest rate loans will have a maximum allowable interest rate of Prime +, determined by HESC as market conditions dictate. Lenders of variable-rate loans can discount that margin at their discretion or provide other borrower benefits.

Borrower fees will vary, based on the underlying credit quality of the borrower/co-signer, to ensure the adequacy of the default reserve funds. Borrower fees may be added to the cost of attendance for the purpose of calculating the loan amount. The college fee will not reduce the loan amount credited to the borrower's account by the college.