

PLUS Auction – Preliminary Questions and Answers

The Competitive Loan Auction Pilot Program (PLUS Auction) will allow lenders to bid for the right to originate parent PLUS Loans under the FFEL Program to 'new' parent PLUS Loan borrowers; Grad PLUS Loans are not part of the auction process and will continue to be made under existing rules.

This document is a compilation of several preliminary questions and answers regarding the PLUS Auction. These questions were discussed by members of the FFELP community with the Department of Education (ED) in a conference call on March 11, 2009. The questions and answers are divided into subsections that cover General Auction Information, Borrower Information and School-Specific Information, and are being shared as part of the FFELP community's efforts to provide information to schools and other interested parties. It is anticipated that additional guidance will be provided by ED in the near future.

General Auction Information

Question 1: What is the definition of a 'new' parent PLUS Loan borrower for the purposes of the PLUS Auction?

Answer 1: A 'new' parent PLUS Loan borrower, for purposes of the PLUS Auction, is one with no outstanding balance on a FFEL or Direct parent PLUS Loan on July 1, 2009.

Question 2: May a parent with an outstanding balance on a parent PLUS Loan on July 1, 2009, continue to borrow parent PLUS Loans from the same lender, or another eligible FFEL lender? Or is that parent required to use an auction lender for any new parent PLUS Loan(s) obtained on or after July 1, 2009?

Answer 2: The PLUS Auction is applicable only to 'new' borrowers as defined in Answer 1 above. Therefore, a parent with an outstanding balance on a parent PLUS Loan on July 1, 2009, may continue to use the same lender or any other eligible FFEL lender.

Question 3: Which PLUS Loans for 'new' parent PLUS Loan borrowers are affected by the PLUS Auction: those certified for loan periods that begin on or after July 1, 2009, or those loans to be first disbursed on or after July 1, 2009?

Answer 3: The March 3, 2009, *Federal Register* indicates that the PLUS Auction will cover parent PLUS Loans made to 'new' parent PLUS Loan borrowers "for loan periods beginning on or after July 1, 2009 and ending July 1, 2011." However, the Higher Education Act (statute) states that the auction program is applicable to parent PLUS Loans made (first disbursed) to 'new' parent PLUS Loan borrowers on or after July 1, 2009. ED has indicated they will use a 'dual trigger' for purposes of the auction: loans first disbursed on or after July 1, 2009, for loan periods that begin on or after that date.

Question 4: What will ED do in the event of a failed auction in one or more states?

Answer 4: In a state with a failed auction (i.e., less than two winning bidders) and no PLUS LLR, the PLUS Loan program will continue as it currently exists; parent PLUS Loan borrowers will have the option to select any eligible FFEL lender and schools will certify those loans based on the borrower's choice of lender.

Question 5: If only one lender bids in a state, does the school certify parent PLUS Loans using the PLUS lender of last resort (PLUS LLR) or is the single lender that bid considered the lender for all eligible parent PLUS Loans for the state?

Answer 5: If only one lender bids in a state, it is considered a failed auction. The school must use the PLUS LLR for that state since two bidders in a state are required for a successful auction. If there are not two bidders in a state, and no lender bids to serve as the PLUS LLR for the state, then parent PLUS Loans will be made under the current FFELP rules, and the parent may choose any eligible FFELP lender.

Borrower Information

Question 6: If a 'new' parent PLUS Loan borrower wishes to obtain parent PLUS Loans for two or more dependent students who attend schools in different states for loan periods that begin on or after July 1, 2009, is the parent required to use different auction lenders for each of those student's loans, assuming both of the states have successful auctions?

Answer 6: Yes. The parent must choose one of the auction lenders for the state in which a dependent student's school is located (refer to Answer #8 for more specific information.) In this example, the parent may be required to obtain those PLUS Loans from two different lenders. It is possible, however, for one lender to win bids in multiple states. If the PLUS Auction lender is a winning bidder for both of the states in which the parent's dependent students' schools are located, then the parent may obtain each of the PLUS Loans for his dependent students from the same lender.

For example, a parent is a 'new' parent PLUS Loan borrower (as defined above in Answer #1) and has two dependents. One student enrolls in school in state A and one student enrolls in school in state B. The parent must borrow from an auction lender in state A for the first student and from an auction lender in state B for the second student.

Question 7: With respect to borrower benefits, is it permissible for a guarantor to pay the federal default fee on behalf of the parent borrower? Language in the March 3, 2009, *Federal Register* (top of page 9233) appears to state that only the 0.25% interest rate reduction for automatic payment processing must be offered.

Answer 7: Yes; a guarantor may pay the default fee for a parent PLUS borrower who borrows from an auction lender. Statute addresses only those benefits offered by the lender, not those offered by the guarantor.

School - Specific Information

Question 8: If a school has campuses located in multiple states, what state does each campus use in identifying its parent PLUS Loan lenders? Is it based on the physical location of each individual campus, or is it tied to the location of the school's financial aid or administrative office? What about online schools?

Answer 8: For purposes of the auction, each school must determine its parent PLUS Loan lenders based on the physical location of the school. If the school has multiple campuses located in multiple states, the location of the specific campus determines the auction lender(s) that must be used. A school that offers only online courses (online school) must determine its parent PLUS Loan lenders based on the physical location of the school's administrative offices. The online component of a school that also has one or more physical locations must be determined by the state in which the school's main campus is located.

Question 9: If the school is located in a state with two winning bidders, how does the school determine which of those two lenders it must use when certifying PLUS Loans for its 'new' parent borrowers? Will each school be 'assigned' to a specific winning lender, or is the parent able to choose between those two lenders?

Answer 9: The parents may choose between the winning bidders.

Question 10: May schools continue to package and certify parent PLUS Loans, or should schools cease certifying these loans until the auction results are known for their state?

Answer 10: Schools may continue to certify parent PLUS Loans under the current PLUS program for parents who have outstanding balances on parent PLUS Loans on July 1, 2009 (i.e., do not meet the definition of 'new' borrower contained in Answer #1). In addition, the school may continue to certify PLUS Loans for 'new' parent PLUS Loan borrowers if those loans are intended for loan periods that begin *prior* to July 1, 2009, or if the first disbursements of the loans will be made prior to July 1, 2009. Parent PLUS Loans for 'new' parent PLUS Loan borrowers, as defined in Answer #1, may be packaged as part of the dependent students' award, but may not be certified until the results of the auction are known – no later than April 24, 2009.

Question 11: May schools continue to use parent PLUS loan 'denials' as the basis for certifying additional unsubsidized Stafford loan funds for dependent students for the 2009-2010 award year, or must those denials come from one of the two lenders that win the parent PLUS Loan rights for that state?

Answer 11: If the school receives a 'denial' for a parent whose loan is intended for a loan period beginning *prior* to July 1, 2009, or will be first disbursed prior to July 1, 2009, the school may use that denial to certify the additional unsubsidized Stafford Loan funds for the dependent student. However, if a school receives a PLUS denial for a 'new' parent PLUS Loan borrower (as defined in Answer #1) whose loan is intended for a loan period beginning on or after July 1, 2009, or will be first disbursed on or after July 1, 2009, the denial must be provided by one of the state's identified auction lender(s) in order for the school to certify additional unsubsidized Stafford Loan funds for the dependent student.

Question 12: If a school uses a 'preferred lender list', must the school add the PLUS Auction winning bidders to the list?

Answer 12: There is no current requirement for schools to include auction lenders on their preferred lender lists. However, in the case of loans subject to the PLUS Auction, schools must at least identify the winning bidders (or the PLUS LLR, if applicable) to their 'new' parent PLUS Loan applicants; these are the only lenders these borrowers may choose.

Question 13: Who is responsible for determining whether a parent PLUS Loan applicant is considered a 'new borrower' for purposes of the PLUS Auction?

Answer 13: As is the case with other borrower eligibility criteria, the school must determine if the parent applicant is a 'new' borrower for purposes of the PLUS Auction.

Question 14: For purposes of the PLUS Auction, is the lender required to work with the designated guarantor for the state(s) in which the lender becomes the winning bidder?

Answer 14: No. The lender may choose to work with a guarantor with which it already has a relationship; it does not have to be the designated agency for the state. Alternatively, the lender may choose to establish a relationship with the state's designated guarantor.

Note that additional information on the PLUS Auction can be found at:

<http://www.ed.gov/about/offices/list/ope/plus-auction/index.html>