

**SOLICITATION 200800657: TASK ORDER 01
CONSUMER RESEARCH AND TESTING FOR PRIVATE
EDUCATION LOANS**

Final Report of Findings

Submitted to:

Federal Reserve Board
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1. Background and Research Objectives

As the cost of a college education continues to rise, families are increasingly relying on private loans to help finance higher education. The Higher Education Opportunity Act (HEOA) (PL 110-315) requires the Federal Reserve Board to provide regulations to implement new disclosures for private education loans. The Act also requires the Board to provide model disclosure forms based on consumer testing. The objective of this effort is to design and test consumer disclosures related to private education loans provided by creditors.

The Act requires private loan disclosures to be provided several times in the lending process prior to when repayment is required. First, with an application or a solicitation where no application is required, lenders must provide general information about their loan's rate, fees, and terms. In addition, the Act requires that these disclosures must inform the prospective borrower of the potential availability of Federal education loans and the interest rates on those loans. The disclosures must also state that the consumer may obtain additional information about Federal loans from the school or the Department of Education website, and that the student's school may offer school-specific loan benefits and terms.

Next, when the lender approves the student's application for a private education loan, the lender must provide loan-specific information for that particular borrower. The disclosure must also notify borrowers that they have thirty (30) days in which to accept the approved loan during which time the loan's terms may not change. Finally, before loan funds are disbursed, the lender must provide an updated disclosure form that is substantially similar to the form provided at approval, with the addition of a notice that the borrower has three business days in which to cancel the loan and that loan proceeds will not be disbursed until after this period.

The HEOA disclosures are in addition to the disclosures currently required by the Truth in Lending Act (TILA). TILA requires certain loan cost disclosures be given before consummation for all loans, including education loans.

The objectives of the effort reported here, as mandated by the HEOA, are to develop model disclosure forms that:

1. Are comprehensible to borrowers, with a clear format and design;
2. Provide for clear and conspicuous disclosures;
3. Enable borrowers to easily identify material terms of the loan and to compare such terms among private education loans; and
4. Are succinct, and use an easily readable type font.

The HEOA also requires the Board to prevent duplicative disclosures to the extent possible. Thus, an additional goal of the project is to develop disclosures that minimize duplication with disclosures currently required by TILA.

This report discusses results for the second phase of the project.

2. Methodology

This project was a collaborative effort between the Board and Rockbridge Associates, Inc., a consumer research firm (and the lead contractor), and EightShapes, LLC, a design firm that was part of the Rockbridge team. In its entirety, the project spanned three phases, including: 1) initial design and testing, 2) additional interviews and revisions, and 3) final report. This final report describes consumer testing and design revisions that took place during the second phase of the project.

2.1. Cognitive Interviews

As in Phase 1, the disclosures were evaluated through a cognitive interview process. The process involved having past borrowers or potential borrowers undergo a simulated shopping experience in which they reacted to the disclosures populated with actual information and provided their feedback while reviewing the documents. The interviewing for phase 2 was conducted in three rounds in April, May and June 2009, with a variety of revisions made to the disclosures between rounds. The following summarizes specific elements of the testing methodology, including: recruiting participants, pre-interview data collection, interviewing, and analysis.

The three rounds of interviewing consisted of a total of 30 interviews as follows:

- ▶ 9 students/parents in Fairfax, Virginia
- ▶ 11 students/parents in Philadelphia, Pennsylvania
- ▶ 10 students/parents in Bethesda, Maryland

A sampling/quota plan was agreed with Board staff and used to guide recruiting of participants. The target audience consisted of college students who either obtained private education loans or anticipated getting such loans in the future, and parents who were involved in planning the education finances for their children who met these criteria. Participants were identified from general databases of consumers in the areas surrounding the research facilities, and were screened to ensure they met the requirements of the study. Quotas were established to ensure:

- An even mix of students versus parents
- An even mix of those with private loans already or who anticipated taking out private education loans
- A good mix of private versus public colleges, and a diversity of campuses represented
- Representation of independent students as well as traditional students
- A good mix of graduate, professional/trade school and undergraduate students
- An even mix of males and females
- Predominantly full-time students (although some could be part-time)

A structured screening interview was used to guide the recruiting process (see Appendix). Respondents were offered an incentive of \$100 to \$125 in exchange for participating (and more for respondents who remained on-site as back-ups in the event of a no-show). The table below summarizes the characteristics of the participants interviewed in each round, based on their responses in the recruitment interview.

SUMMARY OF INTERVIEW PARTICIPANTS FOR PHASE 2 OF PRIVATE LOAN DISCLOSURE STUDY			
	Fairfax, Virginia	Philadelphia, Pennsylvania	Bethesda, Maryland
Total	9	11	10
<u>Type of Participant</u>			
• Parents	4	5	5
• Students	5	6	5
<u>Private Loan Status</u>			
• Has Private Loans	5	4	5
• Anticipates in Future	4	7	5
<u>Type of School</u>			
• Public	5	5	5
• Private	2	5	3
• Proprietary	2	1	2
<u>School Status</u>			
• Full-time	9	8	9
• Part-time	0	3	1
<u>Type of Program</u>			
• Undergraduate	7	8	8
• Graduate/Professional	2	3	2
<u>Gender</u>			
• Male	5	5	5
• Female	4	6	5

Participants were also asked, upon arriving to be interviewed, to complete an intake survey about themselves and their family, to provide context for the interviewing process (see Appendix). For example, it is useful to know if the participant or their child had already applied for private education loans. The intake survey for students gathered information about: other children in their family, type of school, planned graduation date, degree or expected degree, number and amount of private education loans, lenders used, use of co-signers, and use of private loan consolidation. The parent intake survey gathered similar information, but pertaining to a specific child.

The interviews were conducted in-person at a central facility with a one-way mirror to provide privacy from observers. The interviews lasted approximately 90 minutes and were audio-taped and video-taped. A major part of the interview process consisted of a talk-aloud usability format in which the participant was asked to imagine they were actually shopping for a private education loan and to describe verbally how they were interpreting and using the information on the disclosure forms. The disclosures were provided in black and white, paper format. The interview also consisted of tasks, including marking the forms with comments on what was useful/clear, confusing, and unnecessary/redundant.

An outline of the interview protocol is as follows (see Appendix for detailed interview guide):

- Introduction and explanation of study, with assurances of confidentiality
- Review of background in the in-take survey
- The process the family undertook, or would undertake, in order to shop and apply for private education loans, including: how decisions were made, types of loans obtained, sources of awareness of private loans, sources of information about private loans, lenders considered, who was involved, method of applying, lessons learned
- Usability discussion – for each of the three disclosures (application, approval, final), the discussion included:
 - Review of the form with discussion of impressions and marking of comments
 - Structured diagnostics for the form, including: ability to tell if loan was a good deal, ability to assess impact of loan on the future situation, ease of use, organization, readability, and clarity of language; open-ended probes were asked for each area to ensure adequate feedback to improve the disclosures
 - Perceptions of “next steps” for the borrower based on the form.
- A scorecard assessment across all three disclosures to ensure that key concepts were understood, including: APR, interest rate, cost of loan, start date for payments, penalties, deferment options, whether interest is fixed or variable, payment amounts, the 30 day period for being able to accept the loan terms, and the three day period for being able to cancel the loan.
- As a final check on the usefulness of the disclosures, participants in Rounds 1 & 2 were shown Application & Solicitation disclosures for three versions of loans and asked to choose the best one and explain their reasoning.
 - In Round 3, participants were shown two versions of the Approval Disclosure and asked to do the same.
- Since in some states a “maximum rate” for private education loans does not exist, all three disclosures received modifications to indicate the loan has “no maximum rate”. Consumers reviewed and assessed the modifications to the disclosures for appropriate emphasis and clarity.

As part of the analysis, the results from each interview were organized into a spreadsheet that serves as a data template. The analysis and interpretation of the results was conducted by the core research team (including the interviewers and observers), ensuring validity of findings. The team not only weighed the general findings in the datasets, but assessed them against the general context that emerged from the profiles of each of the families in the study. Key structured diagnostic measures were also tabulated after each round of interviewing to gauge the overall effectiveness of the designs and to minimize subjectivity.

2.2. Iteration of Disclosures

After each round of interviewing, Rockbridge/EightShapes briefed with the Board staff on the results and discussed implications for improvements. While the disclosures were relatively effective in providing the key loan information in the first and second rounds of interviewing, changes were made to address various consumer problems and questions after both rounds. *The discussion on findings presents the cognitive interviewing results for each round separately.*

2.3. Limitations of Research

The methodology for the consumer testing follows standard industry practices for evaluating and designing consumer information materials, including financial disclosures. The approach is highly suited to the task of designing financial disclosures because the information requirements are complex and require the insights of a comprehensive (albeit semi-structured) qualitative research process for guidance. However, the limitations of the methodology should be noted. First, the samples are small and based on convenience sources (i.e., consumers readily available to the facilities where interviewing occurred), which affects the degree to which results can be generalized across the entire population of current and prospective borrowers. Qualitative data is also subject to varying interpretations, although this was addressed by including structured measures and involving multiple researchers in the review of findings.

To guide design decisions, the analysis tallies the results to structured diagnostics for each round and compares the findings across rounds. Such tallying is useful for gauging progress in improving the designs, but the tallies must be viewed as directional in nature. Because of the small samples and differences by location, it is possible for changes to occur for reasons other than the design changes. Thus, in making decisions, the context and reasons for consumer input were weighed as much as the overall trends.

3. Executive Summary and Recommendations

To continue the development of model disclosures for private student loans, three additional rounds of consumer testing were completed. Each round of interviewing included 9 to 11 in-person cognitive interviews with a mix of college students and parents of college students.

During each interview, sample Application & Solicitation, Approval, and Final disclosures for private education loans were reviewed. After the first and second rounds of testing, the disclosures were revised to improve clarity and ease of use.

The following key findings and recommendations are based on the three rounds of consumer testing, highlighting key consumer search concepts and identifying directions in the development process of the model disclosures.

Private Loan Decision Process

Before reviewing the disclosures with consumers, their experiences during the higher education funding process were discussed to provide context for evaluating the sample disclosures.

Consistent with Phase 1, parents of undergraduate students play the central role, or at least a strong advisory role, in determining appropriate financing for their children. Students enrolled in a graduate or professional/technical program are more likely to be the sole decision maker with regards to financing their education.

Overall, most parents and students are aware of Federal funding options but, as was evident in Phase 1 of testing, they are confused about the different types of student loan funding options and the institutions that provide them. Families aware of Federal funding options used the financing available or considered it seriously. These families were also more likely to exhaust financial aid in the form of scholarships or grants.

Families turn to private loans due to time constraints, incomplete funding to cover all costs of education, and ineligibility for Federal aid. In most cases, the decision maker relied heavily on the school to provide information about the loan options available. Many took loans from education financing organizations or banks they recognized by name. The incidence of comparison shopping varies, with many going with the first loan offered to them. Like in Phase 1 of interviewing, most do not recall receiving disclosures for their loans, citing the complicated paperwork involved in the process.

Given that the process is confusing and complicated for consumers, it is critical that the private loan disclosures provided to families are clear and concise, as well as educational in helping them understand the loan they are considering and other educational funding options available. However, consumers recognize that the disclosures cannot provide an elementary education of basic loan concepts.

Application & Solicitation Disclosure

The Application & Solicitation Disclosure is presented to potential borrowers along with an application for the loan they are considering. Information about available rates, loan terms, repayment options, sample costs of the loan, Federal loan alternatives, next steps and reference notes are provided on the disclosure.

Rates & Fees

In reviewing details of private loan offerings from a lender using the Application & Solicitation Disclosure, consumers focus on the interest rates first. In Rounds 1 and 2 of Phase 2 testing, consumers were surprised to see a range of rates quoted in the application stage, as they are more accustomed to lenders quoting a single rate rather than a range of available rates. Consumers' unfamiliarity with the way of communicating available rates causes confusion, as most initially think the high end of the range is the highest their rate can go, instead of the highest their *initial* rate can be. When consumers review the maximum interest rate, a few are able to reconcile the differences, but to most, the information added to their confusion in Rounds 1 and 2.

However, the updates made for Round 3 of the second phase of testing, showing interest rate information in a chronological order from *starting interest rate* to *interest rate during the life of the loan* improved consumers' comprehension. Using this format helped most consumers understand the mechanics of the loan's rate structure.

Consumers want to clearly understand how their initial rate will be determined and do so for the most part after the three rounds of testing. The form is clearly working to provide this information, but clarifications for *school type* and *co-signer* could be made.

Most consumers realize the private loan has a variable rate but have some trouble fully understanding how or why. All understand the rate can change during the life of the loan. Given time to review the details, more consumers are able to discern the causes of interest rate changes in Phase 2 of testing, and there is more acceptance of the LIBOR as the basis for the changes in Round 3 when the reference to the rate being published in the *Wall Street Journal* is made. Nearly all express worry about rate variability and the maximum rate is also disturbing to them. These concerns, which are similar to those mentioned in Phase 1 of testing, show that the disclosures are alerting consumers to important aspects of this type of credit.

When it comes to possible fees applicable to the loan, consumers want to see specific dollar amounts. The percentage rate ranges used for the *Origination Fee*, *Loan Guarantee* and *Repayment Fee* make consumers even more wary of the loan. In addition, consumers wish they understood the reason for the different fees and exactly how they would be assessed, which they say they will discuss with the lender.

Repayment Options and Sample Costs

As in Phase 1 of testing, consumers are more likely to use rate information to make a decision about moving forward with applying for a loan, but seeing sample cost information is effective in communicating the effect of a private loan on their financial future. They understand they have a set of repayment options to choose from and how each would affect the total they would end up paying for the loan, which makes several consider trying to pay at least the interest on their loan while in school. Including the loan term and clarifying the interest rate used in the examples helped improve the effectiveness of this section in conveying the key information.

Federal Loan Alternatives

Even though the disclosure is focused on private loans, consumers are grateful and somewhat surprised to see information about available Federal loans after the critical information on the private loan is presented on the form. They clearly use the information to compare the Federal loan options to the private loan they are reviewing, and most would be sure to look into the options first. Consumers like having the Federal loan interest rates listed, as well as being clearly told where to find more information on them should they choose to investigate these options.

Next Steps

Providing a Next Steps section is helpful in telling consumers how to proceed. While it is redundant to include a step to investigate Federal loan alternatives, it is necessary because it is important to consumers in understanding their options and most do not mind. The step about submitting a School Certification form is not read carefully, but it is not a part of the process now, so it is unfamiliar to them.

Reference Notes

Most overlooked the reference notes at first but after further review found some information that clarified questions they may have had previously. However, there is still some confusion about how a margin of 3% to 13% is added to their loan. Consumers like seeing additional information about the *variable interest rate*. Some find it helpful to see *eligibility criteria* details.

Approval Disclosure

The Approval Disclosure is presented to borrowers when they are approved for a specific loan. Information about rates and total loan costs, repayment schedule, Federal loan alternatives, and next steps are provided on the disclosure.

Rates and Total Costs of the Loan

When evaluating a specific private loan offer, consumers focus primarily on the interest rate and loan costs. The traditional TILA box style of presenting the key elements of a loan works well in this context even with novice borrowers.

Consumers' understanding of the difference between the interest rate and the APR continued to be minimal, as in Phase 1 testing. Though most are able to recognize a difference between the two rates, consumers are unable to fully discern why they differ. However, some progress was made in trying to communicate this information with the form design for Round 3 of testing in Phase 2. More so than in previous rounds, consumers were able to understand that the difference was due to fees being added to their loan amount. When doing a simulated shopping exercise using the Approval Disclosure in Round 3, consumers focused on the interest rate to make their decision, but the "Itemization of Amount Financed" table helped them take the fees into consideration too. This illustrates that the disclosure's design helps ensure consumers are considering all of the important aspects of the loan, even if they do not focus directly on the APR.

Though most consumers already understand that their interest rate is variable from the Application & Solicitation Disclosure, there is still some confusion about how or why their rate would vary when they review the Approval Disclosure. As they review more of the disclosure, most consumers are able to understand how the rate varies and how often it can adjust. Including a reference to the LIBOR index on the front page would help with consistency of the Application & Solicitation Disclosure and the Approval Disclosure, and the language worked well on the Application & Solicitation Disclosure.

The maximum interest rate is still a scary possibility to most consumers. A few want to see information that provides a historical perspective of the rate so they can judge the possibility of it ever increasing to 25% on their own.

As noted with the Application & Solicitation Disclosure, consumers want all fees disclosed with specific dollar amounts as part of the discussion of rates and loan costs. The Round 3 version of the disclosure was the most successful in helping consumers understand the range of fees and how they would be applied. Again, clarification for the *fee upon entering repayment* is needed as it was a trigger for questions in the last two rounds of interviews in Phase 2.

Repayment Schedule

The monthly payment schedule and amounts continue to be critical information to consumers. Consumers want to be clear if they are deferring payments while in school, when their payments start, and how much their payments are after graduation. It is important to show this information for both the initial rate and the maximum rate to help consumers understand that their monthly payment will vary based on the rate. A few want to see the same type of information for an interest rate between the two used in the example.

Federal Loan Alternatives

Consumers find the inclusion of Federal financial aid information on the Approval Disclosure to be helpful. As with the Application & Solicitation Disclosure, consumers use the interest rate data to compare to the interest rate they would get for the private loan. This information effectively encourages them to investigate Federal loans.

Next Steps

It is important to include the acceptance deadline for the loan on the Approval Disclosure in large font to help consumers ensure they meet the deadline if they choose to accept the loan. Consumers understand that some of the loan terms can change before they accept.

Reference Notes

Consumers use the additional interest rate information provided to try to understand more about the variability. The APR information is also reviewed but does not provide further clarification. Information about *bankruptcy limitation*, *repayment options* and *prepayments* are mostly effective in communicating key information. However, it is necessary to clarify the meaning of "You will not be entitled to a refund of part of the finance charge."

Final Disclosure

The Final Disclosure is presented after the consumer accepts the offer from the lender. It is identical to the Approval Disclosure, except it includes a Right to Cancel clause and excludes the Federal Loan Alternatives information provided in the two previous disclosures.

Right to Cancel

Consumers consider the Right to Cancel clause critical information to know when finalizing the loan process. They want clear information on the procedure to cancel and like that a date is specified. All are clear about how they would cancel the loan.

Federal Loan Alternatives

The Federal loan options are not necessary to include at this stage of the process. No one in Phase 2 of testing asked to see the information on the Final Disclosure.

No Maximum Interest Rate

In some states, a maximum interest rate is not a requirement for lenders. After reviewing all three disclosures, consumers were asked to review them again with a modification that indicated the loan did not have a maximum interest rate. Although most feel the disclosures clearly convey this information, they want the information to receive more emphasis given its potentially severe consequences.

4. Detailed Findings

4.1. Decision Process Experience

In order to provide context to help with the development of disclosures, students and parents were asked about the types of funding they use for higher education and the processes they undergo to choose and apply for private loans. The following discusses what consumers reported about their past experiences and future strategies for shopping for private loans.

4.1.1. Use of Private Education Loans

As seen in Phase 1 of testing for all families, with and without private loans, there is a common theme of coming up short on funds to pay for college. Most have exhausted Federal loan options, run out of scholarships and grants, reached the limit they can afford to pay out-of-pocket, and still fall short of the full amount they need.

For some families with private loans, a lack of time to do extensive shopping was the main factor in their decision to take private loans. Students were on their way to school or already starting classes when families were told exactly how much more they needed for school. They felt they were unable to research or apply for Federal loans, grants, and/or scholarships, and were forced to take private loans, which they perceived to be easier and quicker to obtain than Federal options.

Other consumers with private loans took the time to investigate Federal funding sources prior to applying for private loans. For many, they knew Federal funding was not enough to cover the entire cost of their education so they needed private loans to make up the difference. A few families were under the impression that they would not be eligible to receive Federal funds due to their income being too high, and therefore did not bother to explore that option.

In general, consumers with Federal loans are more likely to apply for scholarships, grants, and endowments than those without. Despite the extra effort they put into finding funding sources, many still foresee a need for private loans as they will likely exhaust these sources before completing their education.

4.1.2. Information Gathering and Decision Process for Private Education Loans

Many families split the responsibility of paying for college between the parents and the student, even though parents play the primary role in finding and investigating funding sources, particularly for undergraduates. The financial responsibility is commonly broken up by the time in school (e.g., the parent will agree to pay for four years and then the student is responsible for any additional semesters needed to obtain their degree and/or graduate school). Some families split the cost by having one party pay the tuition while the other assumes responsibility for room and board, books, etc. Fewer students are completely independent and solely responsible for paying for college, or have parents who carry the entire financial burden.

Understanding the funding options available for higher education is difficult for both parents and students. Most consumers have a limited understanding of the Federal loans available and some are unclear about the differences between Federal and private loan programs. Most know that they need to complete a FAFSA (Free Application for Federal Student Aid) to obtain Federal loans, but are less aware of the various types of Federal loans. Stafford loans are the most commonly cited Federal loan; consumers either have one or recognize the name. Consumers generally prefer Federal loans over private, because they believe Federal loans have better interest rates and offer more repayment options, like deferring payments while in school.

Many borrowers rely on their school's financial aid office for information about paying for college. Financial aid administrators are a trustworthy and unbiased source of information about the various funding sources available. In many cases, consumers base their decisions on the schools' recommendations and choose loans that are easiest to obtain. In some cases, this leads consumers to opt for a private loan.

Consumers also place a great deal of trust in their banks and even more so, their credit unions. They have (or plan to) rely on them as a primary source of information when evaluating loans. Those who belong to credit unions usually start there to get information about private loans since they perceive them to be more trustworthy than banks. After getting information and a rate quote from their credit unions, they are likely to compare it against rates offered by banks with which they have some familiarity.

Several consumers use or anticipate using the Internet to collect information on education loans. Those who use the Internet as a primary source of information are also likely to complete the application process online. However, some are uneasy with the Internet being the only source and want to speak with a live person due to the complexity and magnitude of the financial commitment. They also find it more difficult to judge a bank's credibility online.

Many consumers also rely on family and friends for advice and information about education loans. Students are likely to consult their parents or other trusted family members when looking at funding options.

As in previous rounds, a loan's interest rate is the primary criterion for comparing loans. Consumers also evaluate options based on repayment plans available. Lower payments and deferment options are both important aspects of the repayment plan. However, it is apparent that the intensity of comparison shopping varied, and in many cases, consisted of applying for the first loan offered rather than shopping for alternatives. Consumers are most likely to accept the first loan offered when they are up against a tight deadline to make their tuition payment; getting the best deal becomes secondary to getting tuition paid on time.

Consumers were asked about their recall of Federal disclosures when they applied for education loans. If reviewed at all, disclosures were read hastily. Consumers thought they were hard to read and had too much information to process; one consumer felt that the disclosures were "written in a foreign language".

4.2. Application & Solicitation Disclosure





The Application & Solicitation Disclosure is designed to be presented to potential borrowers along with the loan application. It is intended to clearly communicate the key information in evaluating the loan offering. It is also intended to be used by borrowers in comparing loan offerings to help decide which would be best for them.

4.2.1. General Impressions of the Application & Solicitation Disclosure

Round 1. In Round 1 of the second phase of consumer testing, the Application & Solicitation Disclosure was somewhat effective in providing the information necessary for consumers to make a decision about a loan. It was slightly more successful in communicating the effect the loan would have on their future. Unlike previous rounds, more consumers found that enough emphasis was put on the information relevant in making a decision about the loan. However, as in previous rounds of testing, it is important to keep in mind that these comments are based on a limited sample size and should be considered directional in nature.

Application & Solicitation Disclosure: Round 1	
Can you tell if the loan is a good deal or not by using the form?	5 of 9 said “yes”
Can you tell how taking loan will affect you/ your child in future?	6 of 9 said “yes”
Is enough emphasis put on the info that is relevant to you in making a decision to take private loan or not?	7 of 9 said “yes”





During Round 1, as in the previous phase of testing, the initial Application & Solicitation Disclosure was viewed as “somewhat easy” to use in evaluating the private loan. The organization of the disclosure was also rated “somewhat easy” to follow. Consumers found the form to be nearly “very easy” to read and the language/terminology used was “somewhat easy” to understand.

	Average Rating - among 10 participants -
How easy is form to use in evaluating private loan?	
What about the <u>organization</u> of the form? How easy is it to follow?	
How <u>easy is it to read</u> the information printed on this form?	
Is the <u>language/terminology</u> clear and understandable?	
Note: 4 Stars = “Very Easy”; 3 Stars = “Somewhat Easy”; 2 Stars = “Somewhat Hard”; 1 Star = “Very Hard”	

Round 2. In Round 2, fewer consumers than in Round 1 thought enough emphasis was placed on relevant information. The lower rating could be due to some consumers believing the form was too generic. They wanted specifics as to how the LIBOR has varied in the past and what typical starting rates are for the loan. A few consumers also felt the form needed to inform consumers about penalties for prepayment, if any. The form performed about the same as in Round 1 in communicating the effect the loan would have on their future and in helping the consumer decide if the loan is a good deal.

Application & Solicitation Disclosure: Round 2	
Can you tell if the loan is a good deal or not by using the form?	5 of 11 said “yes”
Can you tell how taking loan will affect you/ your child in future?	7 of 11 said “yes”
Is enough emphasis put on the info that is relevant to you in making a decision to take private loan or not?	5 of 11 said “yes”





The updated Application & Solicitation Disclosure form received similar usability ratings as in Round 1. Consumers still believed the form was “somewhat easy” to use to evaluate the loan and that it was “somewhat easy” to follow in terms of organization. The form continued to be nearly “very easy” to use in terms of readability. Improving slightly from Round 1, consumers believed the language/terminology used was nearly “very easy” to understand.

	Average Rating - among 11 participants -
How easy is form to use in evaluating private loan?	
What about the <u>organization</u> of the form? How easy is it to follow?	
How <u>easy</u> is it to <u>read</u> the information printed on this form?	
Is the <u>language/terminology</u> clear and understandable?	
Note: 4 Stars = “Very Easy”; 3 Stars = “Somewhat Easy”; 2 Stars = “Somewhat Hard”; 1 Star = “Very Hard”	

Round 3. Consumers in Round 3 thought that the Application & Solicitation Disclosure form did a better job of emphasizing important information than it did in Round 2. The majority also felt they were able to predict how this loan would affect them or their child in the future. As seen in previous rounds, fewer consumers are able to tell if this loan is a good deal using the information presented on this form. This can likely be attributed to the wide range of starting interest rates cited. Consumers felt that they needed to know their actual rate to make an informed decision about this loan. Similarly, they wanted more details about the fees and more specificity concerning what they would actually be.

Application & Solicitation Disclosure: Round 3	
Can you tell if the loan is a good deal or not by using the form?	6 of 10 said “yes”
Can you tell how taking loan will affect you/ your child in future?	8 of 10 said “yes”
Is enough emphasis put on the info that is relevant to you in making a decision to take private loan or not?	8 of 10 said “yes”

Consumers in Round 3 rated the usability of the forms much like consumers in the two previous rounds. The organization improved slightly and was nearly “very easy” for consumers to follow. Dropping slightly from Round 2, consumers believed the language/terminology used was “somewhat easy” to understand. They had a hard time understanding some fees, specifically the Repayment Fee, and also felt the percentage ranges given for the fees allowed for too much variance in what the actual amount of the fee would be.

	Average Rating - among 10 participants -
How easy is form to use in evaluating private loan?	
What about the <u>organization</u> of the form? How easy is it to follow?	
How <u>easy</u> is it to read the information printed on this form?	
Is the <u>language/terminology</u> clear and understandable?	
Note: 4 Stars = “Very Easy”; 3 Stars = “Somewhat Easy”; 2 Stars = “Somewhat Hard”; 1 Star = “Very Hard”	

The following section provides detailed findings from consumers’ evaluation of the Application & Solicitation Disclosure in each round of testing.

4.2.2. Reactions to Detailed Elements of Application & Solicitation Disclosure

The Application & Solicitation Disclosure used for Round 1 of the second phase of consumer testing included six sections: Creditor Information, Rates & Loan Terms, Repayment Options & Sample Costs, Federal Loan Alternatives, Next Steps and Reference Notes.

For Rounds 2 and 3 of testing, the disclosure was redesigned to better address the informational needs of consumers. The information was presented in six sections and included the following: Creditor Information, Loan Rates & Fees, Example Loan Costs, Federal Loan Alternatives, Next Steps and Reference Notes.

4.2.2.1. Creditor Information Section of Application & Solicitation Disclosure

The top of the Application & Solicitation Disclosure includes creditor contact information. The section has been redesigned to exclude an introductory paragraph explaining the purpose of the form because it was not seen as useful by testers in the previous phase.

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First ABC Bank 12345 1st St Anytown, CA 93120 (800) 555 - 5555

Round 1. As in the previous phase of testing, most consumers ignored the creditor information on the top of the disclosure. Only a few commented about the information and mentioned that it was good information to have.

Round 2. Due to its acceptance by consumers in Round 1 of testing, no design updates were made to the creditor information provided on the Application & Solicitation Disclosure for Round 2 of testing.

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Like Round 1, most consumers paid little attention to this section. One thought a title and description of what the form covers was needed.

Round 3. Due to continued acceptance with this section, no updates were made to the creditor information on the Application & Solicitation Disclosure form.

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Keeping with previous rounds, consumers rarely mentioned this information

4.2.2.2. Rates Section of Application & Solicitation Disclosure

The Rates & Loan Terms section of the form appeared directly below the creditor information. This section was designed to show consumers the range of initial rates available on a loan, illustrate the payment terms available for loans, indicate the conditions used to determine the initial rate, disclose the maximum rate of the loan and the basis for variability, and indicate that the rate can change up to once a month. The Rates section also included information about Fees related to the loan.

Rates & Loan Terms	
Current Starting Interest Rates between:	
7.375% and 17.375%	
Your starting rate Your specific rate will be determined based upon your creditworthiness and other factors.	
Maximum Interest Rate Your interest rate will vary with the market based on the LIBOR Rate (a publicly available interest rate we use to set the variable rate) but will never go above 25%. The rate can change once a month and there is no limit on how much the rate can increase at one time.	
Fees Application Fee: \$15. Origination Fee: The fees that we charge to make this loan range from 0% to 8%. Late Charge: 5% of the amount of the past due payment, or \$25, whichever is greater. Returned check charge: up to \$25.	
Term of Loan:	
amounts up to \$20,000:	20 years
amounts more than \$20,000:	30 years

Round 1. As consumers began to review the disclosure, the Rates & Loan Terms section received the most attention. Most consumers mentioned the rates but some noted that the Current Starting Interest Rates label was not noticeable enough. Most understood that their rate would start between 7.375% and 17.375% based on their creditworthiness, but some wanted to know how likely they would be to get the lowest rate.

Your Starting Rate

As consumers read over this information, some wondered what “other factors” would affect their interest rate.

Maximum Interest Rate

As consumers reviewed the information in this section, some confusion arose regarding the difference between the 17.375% and the 25% maximum interest rate. It was apparent, as in previous rounds, that some *incorrectly* believed the 17.375% represented how high the interest rate could go during the time they held the loan. However, the information provided in the paragraph helped clear up some of this confusion.

Other information contained in this section also brought up some questions. The “interest rate will vary with the market” information prompts some consumers to ask for historical data to see how the rates have varied in the past. Some also wanted to see the historical data to determine how likely it is that the rate would increase to the 25% maximum.

The LIBOR rate information worked fairly well in communicating that it is a standard index used to establish a borrower’s interest rate, but this could be clarified for some.

Term of Loan

Few mentioned this information without prompting, but those who did understood it was the term of the loan.

Fees

Most were clear about the information regarding fees. A couple of consumers mentioned that they would not pursue the loan if Origination Fees were attached.

Round 2. On the testing version for Round 2, the Rates & Loan Terms section underwent a few updates. The principal reason for these updates was to clarify that the interest rate was variable and that the range shown was for starting interest rates.

The changes included more emphasis on interest rate variability. A section explaining the variability and the maximum rate was placed prominently below the “Starting Interest Rates” section. In general, this section was laid out with the most important information on the left side with necessary descriptions to the right. In addition, a Repayment Fee was added to the Fees section and the Loan Terms information was moved from this section and placed underneath the Example Loan Costs table further down the page.

Loan Rates & Fees		
<p>STARTING INTEREST RATES The current range of initial interest rates for this loan</p>	<p>7.375% to 17.375%</p>	<p>◀ Your specific starting interest rate will be determined based upon your creditworthiness and other factors (e.g. school-type or level, co-signer creditworthiness, etc).</p>
<p>INTEREST RATE VARIABILITY How rates vary and applicable maximum rates</p>	<p>The Interest Rate will vary but will never exceed 25%</p>	<p>◀ Your interest rate will vary with the market based upon the standard LIBOR Rate (a publicly available interest rate). The rate can change once a month and there is no limit on how much the rate can increase at one time.</p>
<p>FEES Applicable fees associated with this loan</p>	<p>Application Fee: \$15. Origination Fee: The fees that we charge to make this loan range from 0% to 6%. Repayment Fee: The fees we charge when you begin repayment range from 0% to 3.5%. Late Charge: 5% of the amount of the past due payment, or \$25, whichever is greater. Returned check charge: up to \$25.</p>	

Starting Interest Rates

Despite continued attempts to communicate that “7.375% to 17.375%” represents the range of starting interest rates available, consumers still perceived the rate range as the minimum and maximum rates for the life of the loan. Consequently, a few thought the 17% was the maximum of the interest rate’s variability, and that the rate would only increase to 25% if they defaulted on payments.

Most consumers noticed and understood the paragraph to the right of the “Starting Interest Rates” range that explained how starting rates would be determined. Some wanted to see specific examples of starting rates based on various credit scores in order to better assess this loan for their particular financial situation. A few consumers also asked for clarification regarding the “other factors” (e.g., how does the school type or level affect the rates?).

Interest Rate Variability

Almost all consumers noticed and mentioned the 25% maximum interest rate of the loan, but only some fully understood how their loan rate could reach this maximum. Almost all consumers were also clear that their rate was variable. However, many were unsure what factors would cause the rate to vary or thought that it would vary based on credit and payment performance. At this point in the process, only a few were aware or noticed the LIBOR index explanation and how it would affect their interest rate.

Fees

Though the fee information seemed clear to most consumers who reviewed it, some did not understand the Repayment fee. However, when asked what they thought it meant, they all guessed it was a fee that would be assessed when they started repayment. The range of 0% to 6% given for the Origination Fee was also mentioned as being too broad.

Round 3. The Rates and Fees section underwent some significant changes for Round 3. These changes were made primarily because of the continued confusion between the starting interest rate range and the possible range over the life of the loan. To alleviate the problem, the interest rate information was presented in a more chronological format; descending from “Your Starting Interest Rate” to “Your interest rate during the life of the loan” and the possible maximum interest rate. Another change was to the description of the LIBOR, “as published in the *Wall Street Journal*” was added to assuage consumers’ distrust of the rate. To keep in-line with the format of this section, the Maximum Rate information was placed underneath the interest rate variability information and was in a smaller font than previous rounds. Lastly, a Loan Guarantee fee was added to the Fees section.

Loan Interest Rates & Fees

Your starting interest rate will be between

7.375%

-

17.375%

After the starting rate is set, your rate will then vary with the market

Your Starting Interest Rate (upon approval)
Your specific rate from within the range will be determined after you apply and will be based upon your credit and other factors (e.g. school type, co-signer credit, etc). If approved, we will notify you of the rate you qualify for.

Your interest rate during the life of the loan
After your initial rate is set, it will then **vary with the market** based upon the LIBOR Rate (as published in the Wall Street Journal). The rate can change once a month and there is no limit on how much the rate can increase at one time.

Although your rate will vary after approval, it will **never exceed 25%** (the maximum allowable for this loan)

Fees
Application Fee: \$15. **Origination Fee:** The fees that we charge to make this loan range from 0% to 6% of total loan amount. **Loan Guarantee Fee:** 0% to 6% of total loan amount. **Repayment Fee:** The fees we charge when you begin repayment range from 0% to 3.5% of the total loan amount. **Late Charge:** 5% of the amount of the past due payment, or \$25, whichever is greater. **Returned check charge:** up to \$25.

Starting Interest Rates Range

Overall, consumers understood the starting rate concept better than in previous rounds. While initial interpretations by some consumers were that the starting interest rate range represented the high/low limits over the life of the loan, most were able to correct themselves after reading the language on the right side of this section.

Presenting the information chronologically helped consumers work their way through the mechanics of the loan's various rates and resulted in the majority understanding that the range shown was the starting interest rate range.

Your Starting Interest Rate (upon approval)

It was clear to most consumers that their initial rate would be based on their credit score. School type and whether or not there was a co-signer were also mentioned by a few consumers as factors that determine their initial rate. However, those who mentioned "school type" were unsure of the meaning; they hypothesized that students attending better schools (e.g., Harvard), were given preferential rates.

Your Interest Rate During the Life of the Loan

Most realized that the interest rate was variable, but there was still some hesitation. Some consumers did not completely understand the variable rate paragraph. However, they were able to grasp the concept that their rate could change. The LIBOR was not mentioned as often as in previous rounds, possibly due to the reference to being published in the *Wall Street Journal*. However, one wanted the variability to be based on the Federal Funds Rate or another rate that was more recognizable.

For the most part, consumers noticed the maximum rate of 25%, and there was less confusion between it and the 17% cap shown for the starting rates. However, some consumers felt the maximum interest rate notation needed more emphasis (e.g., bolding, larger font, boxed, etc).

One consumer was very concerned that there was no limit (up to 25%) on the amount his loan could increase at one time. He was fearful that his rate could more than triple in one month and he would have little time to prepare for the increase.

Fees

Consumers in Round 3 focused more heavily on fees than in previous rounds. However, this may be because there were more fees included on the disclosure than in previous rounds, and/or because they were called out directly below the important interest rate information.

Some consumers continued to have difficulty understanding the definition of an origination fee, loan guarantee fee, and/or repayment fee. Consumers wanted to know the purpose of these fees, when they would be assessed and on what amount the percentage of the fee would be based. Some consumers did not like that the fees were expressed in percent ranges. They felt that this allows too much variability in the amount the fees could be. Ideally they would like the fees expressed as fixed percentages or dollar amounts.

Despite the Fees section being a focal point for many consumers, a couple overlooked it or felt that they may overlook it if reading it in a real situation.

4.2.2.3. Repayment Options & Sample Costs Sections of Application & Solicitation Disclosure

The Repayment Options & Sample Costs section was designed to communicate the in-school repayment/deferment options available to borrowers and the total amount to be paid during the example loan term. To convey this information, this area of the disclosure showed an example of the total cost of a \$10,000 loan based on each repayment/deferment option at the highest possible starting interest rate.

Repayment Options & Sample Costs			
In-School Repayment options (available while continuously enrolled in School)	Sample Loan amount	Sample Interest Rate (highest possible starting rate)	Sample Total Paid (over 20 years, including fees)
1. MAKE NO PAYMENTS Interest will be charged and added to your loan	\$10,000.00	17.375%	\$67,780.47
2. PAY THE INTEREST ONLY Defer payments on the principal amount	\$10,000.00	17.375%	\$46,332.56
3. MAKE FULL PAYMENTS Pay principal and interest	\$10,000.00	17.375%	\$38,044.68

See reference notes on next page for more information about this example.

Round 1. The table detailing the repayment options was well received, and most consumers found it helpful in comparing the total cost of the loan based on three repayment options. Most were clear that the purpose of the table was to provide the various options for repaying their loan. Some consumers did not understand that the options referred to the time the student is enrolled in school and wondered when repayment would start. Adding a prominent “In-School” label before the “Repayment Options & Sample Costs” text could add clarity. The term of the loan was also unclear to some as they questioned how long they would be making payments. A few suggested adding a column that indicates loan term should be considered for the next round of testing as well.

The small notation at the bottom of the table referring consumers to the next page for more information about the example was only noticed by a few.

Round 2. For Round 2 of testing, the bottom half of page 1 underwent a few changes. Most notably, the loan term was moved from the previous section and added to the Example Loan Costs table (renamed from “Repayment Options and Sample Costs”). This was done because in previous rounds some consumers were not clear about the length of the loan term. Also, the title was changed to include “In-School Repayment Option” to address confusion in previous rounds about how long the deferment period or interest only period would last. Lastly, “About the Example” was moved from the reference notes to underneath the table and information about the loan terms was added to it.

Example Loan Costs by In-School Repayment Option

Repayment Options (while continuously enrolled in school)	Loan amount	Interest Rate (highest possible starting rate)	Loan Term (the length of time you have to pay-off the loan)	Total Paid (including associated fees)
1. DEFER PAYMENTS Make no payments while enrolled in school. Interest will be charged and added to your loan	\$10,000.00	17.375%	20 years (starting <u>after</u> the deferment period)	\$80,791.75
2. PAY THE INTEREST ONLY Make interest payments but defer payments on the principal amount	\$10,000.00	17.375%	20 years (starting <u>after</u> the deferment period)	\$50,524.24
3. MAKE FULL PAYMENTS Pay both the principal and interest amounts	\$10,000.00	17.375%	20 years (starting from initial payment date)	\$39,374.08

About the Example

The repayment example above is based on the **highest starting rate currently available** and associated fees. It assumes that the borrower remains in school for 4 years and has a 6 month grace period before beginning repayment.

For loan amounts **up to \$20,000**, repayment will last 20 years, starting once the initial principal payment is made. For loan amounts **more than \$20,000** repayment will last 30 years, starting once the initial principal payment is made.

Repayment Options Table

For the most part, this table worked well to communicate the intended information. Most consumers understood that the table showed different repayment options and the cost differences between them. Consumers liked that they were shown the worst case scenario at the maximum starting interest rate. A few questioned why the 17.375% was used instead of the 25% maximum interest rate. They noted that using the 25% would be more accurate if the intention of the table was to communicate a true worst case scenario. One consumer also wanted to see a table based on a starting interest rate of 7.375% since he believed he would likely be closer to that interest rate. Adding the Loan Term column to the table worked well to communicate that the example was based on a 20 year loan term.

A few consumers expressed confusion about the table. One was not sure what their repayment options were and did not view each row as being a different option. Another was unsure how the Total Paid column was calculated and why it was so high.

About this Example

Moving this section underneath the Repayment Options worked well. While consumers focused on the table itself, they clearly referred to the information in this section if questions came up (e.g. one parent was initially unsure what the length of the deferment period would be, but was able to find the answer in "About the Example").

Round 3. Due to fairly widespread acceptance in Round 2, only a few minor changes were made to the Example Loan Costs section. The main change was the removal of “by In-School Repayment Option” from the title. This additional language in the title was more often confusing to consumers than it was helpful. Additionally, the column header for Total Paid was changed to “Total Paid over 20 years” to provide further clarification of the loan term. Lastly, and due to space constraints, the About this Example section was merged into one paragraph.

Example Loan Costs				
The total amount you will pay for this loan will vary depending upon when you start to repay it. This sample provides estimates based upon three (3) different repayment options available to you while enrolled in school.				
Repayment Option (while enrolled in school)	Loan amount	Interest Rate (highest possible starting rate)	Loan Term (the length of time you have to pay-off the loan)	Total Paid over 20 years (includes associated fees)
1. DEFER PAYMENTS Make no payments while enrolled in school. Interest will be charged and added to your loan	\$10,000.00	17.375%	20 years starting <u>after</u> the deferment period	\$80,791.75
2. PAY THE INTEREST ONLY Make interest payments but defer payments on the principal amount while enrolled in school.	\$10,000.00	17.375%	20 years starting <u>after</u> the deferment period	\$50,524.24
3. MAKE FULL PAYMENTS Pay both the principal and interest amounts while enrolled in school.	\$10,000.00	17.375%	20 years starting after your first payment	\$39,374.08

About this example
The repayment example assumes that the borrower remains in school for 4 years and has a 6 month grace period before beginning repayment. It is based on the **highest starting rate currently available** and associated fees. For loan amounts **up to \$20,000**, repayment will last 20 years, starting once the initial principal payment is made. For loan amounts **more than \$20,000** repayment will last 30 years, starting once the initial principal payment is made.

Repayment Option Table

In general this table worked better after the change to the heading. The majority of consumers understood that the table presented three different options for repayment. There was some discussion about whether 17% was the right rate to use for the example, especially among consumers who expected their rate to be closer to the low end of the rate range. One consumer also felt that using the 17% gave the impression that it was the maximum rate of the loan. One consumer was unsure who was responsible for choosing the repayment option and if it was based on eligibility. One did not understand why the options had different total paid amounts or whether the loan could be paid in “chunks” rather than even monthly installments over 20 years.

About this Example

Consumers read and understood this section. They found the information about the grace period to be especially helpful. One consumer also appreciated that it noted “associated fees” were included in the estimates.

4.2.2.4. *Federal Loan Alternatives Section of Application & Solicitation Disclosure*

The purpose of the Federal Loan Alternatives section is to communicate Federal financial assistance options that consumers should consider, the interest rates available on Federal loans, the non-variability of those interest rates and where to get information about Federal financial aid.

Round 1. Unlike previous testing phases, this information appeared at the bottom of the first page of the disclosure versus the top of the second page.

Federal Loan Alternatives		
Loan program	Current Interest Rates	
PERKINS for Students	5% fixed	
STAFFORD for Students	6% fixed	Undergraduate subsidized
	6.8% fixed	Undergraduate unsubsidized & Graduate
PLUS for Parents	8.5% fixed	Federal Family Education Loan
	7.9% fixed	Federal Direct Loan

You may qualify for Federal education loans.
 For additional information, contact your school's financial aid office or the Department of Education at: federalstudentaid.ed.gov

The placement of this information made it less clear to consumers than in previous rounds. Because it was on the first page with the details of the private loan, many were confused and wondered how it was related to the private loan option. Although most consumers did not appear to read the “You may qualify for Federal education loans” paragraph carefully, it was clear that if they wanted to learn more, they should visit the federalstudentaid.ed.gov website.

Some asked for more information about the federal loan alternatives to be included on the disclosure, which provides evidence that the disclosure does its job of encouraging consumers to consider other options to the private loan.

Round 2. In Round 2, this section was moved to the top of the second page in response to consumers in Round 1 thinking these options were related to the private loan. Also, “Graduate/Professional Students” was added to the description of the PLUS loan.

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Federal Loan Alternatives

Loan program	Current Interest Rates	
PERKINS for Students	5% fixed	
STAFFORD for Students	6% fixed	Undergraduate subsidized
	6.8% fixed	Undergraduate unsubsidized & Graduate
PLUS for Parents and Graduate / Professional Students	8.5% fixed	Federal Family Education Loan
	7.9% fixed	Federal Direct Loan

You may qualify for Federal education loans.
For additional information, **contact your school's financial aid office or the Department of Education at:**
federalstudentaid.ed.gov

In Round 2, there was less confusion between the private loan and these Federal Loan Alternatives since this section was moved to the second page. Many consumers thought it was helpful to have the Federal Loan Alternatives on this form. The lower interest rates, more than the fixed nature of the rates, prompted their desire to go to the website to investigate. There were still questions about the differences between the loans (e.g., subsidized vs. unsubsidized).

Round 3. Due to general acceptance and understanding by consumers in Round 2, this section remained on the second page and did not undergo any changes.

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Federal Loan Alternatives

Loan program	Current Interest Rates	
PERKINS for Students	5% fixed	
STAFFORD for Students	6% fixed	Undergraduate subsidized
	6.8% fixed	Undergraduate unsubsidized & Graduate
PLUS for Parents and Graduate / Professional Students	8.5% fixed	Federal Family Education Loan
	7.9% fixed	Federal Direct Loan

You may qualify for Federal education loans.
For additional information, **contact your school's financial aid office or the Department of Education at:**
www.federalstudentaid.ed.gov

Everyone understood these are alternatives to the private loan they would be considering and believed it was helpful to present them on this form. Some of the more experienced consumers believed that parents and students should have already investigated and/or exhausted these options if they were considering a private loan. However, they still thought it was useful to show the alternatives in case they had not considered them.

Some wanted to get more explanation about the Federal loans. A couple of consumers thought the difference between unsubsidized and subsidized should be explained. Another consumer

wanted to know why the PLUS loan was for parents, and one wondered what the qualification requirements were for these alternatives. Additionally, some wanted to see more details about the Federal Loan Alternatives presented in a table, similar to the Example Loan Costs table on the first page. However, consumers had a clear understanding of where they could obtain additional information and answer their questions about Federal loans.

4.2.2.5. Next Steps Section of Application & Solicitation Disclosure

The Next Steps section of the Application & Solicitation Disclosure is intended to reiterate where to get information about Federal financial aid, and communicate the school certification form requirement.

Next Steps
<p>1. Find Out More About Other Loan Options. Some schools have school-specific student loan benefits and terms not detailed on this form. Contact your school's financial aid office or visit the Department of Education's web site at federalstudentaid.ed.gov for more information about other loans.</p> <p>2. To Apply for this Loan, <u>Complete the Application and the School Certification Form.</u> You may get the certification form from your school's financial aid office. If you are approved for this loan, the loan terms will be available for 30 days (terms will not change during this period, except the variable interest rate may change based on adjustments to the index).</p>

Round 1. As in previous rounds, most consumers reviewed the Next Steps section quickly. When asked what they would do next, all knew what to do.

Round 2. The Next Steps section did not change from Round 1.

Next Steps
<p>1. Find Out More About Other Loan Options. Some schools have school-specific student loan benefits and terms not detailed on this form. Contact your school's financial aid office or visit the Department of Education's web site at federalstudentaid.ed.gov for more information about other loans.</p> <p>2. To Apply for this Loan, <u>Complete the Application and the School Certification Form.</u> You may get the certification form from your school's financial aid office. If you are approved for this loan, the loan terms will be available for 30 days (terms will not change during this period, except the variable interest rate may change based on adjustments to the index).</p>

This section continued to work well. Most consumers acknowledged that they would investigate the Federal loan alternatives before applying for the private loan. Many said they would go to their school's financial aid office, though they rarely said it was to get a certification form. One consumer thought that the Next Steps applied to the Federal Loan Alternatives, so this caused some confusion for the parent.

Round 3. No changes were made to this section due to the overall awareness and understanding in Round 2.

Next Steps

1. Find Out More About Other Loan Options.

Some schools have school-specific student loan benefits and terms not detailed on this form. Contact your school's financial aid office or visit the Department of Education's web site at federalstudentaid.ed.gov for more information about other loans.

2. To Apply for this Loan, Complete the Application and the School Certification Form.

You may get the certification form from your school's financial aid office. If you are approved for this loan, the loan terms will be available for 30 days (terms will not change during this period, except the variable interest rate may change based on adjustments to the index).

For the most part, consumers understood their next steps. However, one student was unsure if she would be locked into this loan by applying for it (she encountered this same uncertainty when actually applying for her current loan).

Consumers liked that # 1 reinforced looking into the Federal loan options before applying for a private loan. One thought that this bullet would be more applicable directly underneath the Federal Loan Alternatives table.

4.2.2.6. Reference Notes Section of Application & Solicitation Disclosure

The Reference Notes were intended to provide details for information shown previously on the disclosure. Comprehensive interest rate variability information, eligibility criteria, where to get more information on loan eligibility, and details about the repayment options example are included.

REFERENCE NOTES	
<p>Variable Interest Rate</p> <ul style="list-style-type: none"> This loan has a variable interest rate, that is based on a publicly available index, the London Interbank Offered Rate (LIBOR). Your rate will be calculated each month by adding a margin between 3% and 14% to the LIBOR. 	<p>More information about loan eligibility is available in your loan application and promissory note.</p>
<p>Eligibility Criteria</p> <p>Borrower</p> <ul style="list-style-type: none"> Must be enrolled at an eligible school at least half-time Must be 18 years or older at the time of loan application. <p>Co-signers</p> <ul style="list-style-type: none"> A co-signer is not required, but rates are typically higher without a co-signer Must be 18 years or older at the time of loan application. 	<p>About the Repayment Example</p> <p>The repayment example above is based on the highest starting rate currently available and associated fees. It assumes that the borrower remains in school for 4 years and has a 6 month grace period before beginning repayment. Repayment will last 20 years.</p>

Round 1. The Reference Notes section communicated the intended information well with only one item of confusion. Some consumers wanted to know why the London Interbank Offered Rate was used instead of another more well-known index. When consumers reviewed the margin information, most were unclear of how the 3% to 14% would affect the variability of their interest rate and if their margin was fixed.

The Eligibility Criteria information was understandable to most consumers with only a few questions regarding the minimum age criteria and half-time enrollment.

- ▶ *“What if I’m 17 when I start school?”*
- ▶ *“What constitutes half-time enrollment?”*

Round 2. For Round 2 of consumer testing, the Reference Notes section underwent some updates. The “About the Repayment Example” paragraph was moved to the first page under the actual example.

REFERENCE NOTES	
<p>Variable Interest Rate</p> <ul style="list-style-type: none"> This loan has a variable interest rate, that is based on a publicly available index, the London Interbank Offered Rate (LIBOR). Your rate will be calculated each month by adding a margin between 3% and 14% to the LIBOR. 	<p>More information about loan eligibility is available in your loan application and promissory note.</p>
<p>Eligibility Criteria</p> <p>Borrower</p> <ul style="list-style-type: none"> Must be enrolled at an eligible school at least half-time. Must be 18 years or older at the time of loan application. <p>Co-signers</p> <ul style="list-style-type: none"> Not required, but rates are typically higher without a co-signer. Must be 18 years or older at the time of loan application. 	

The majority of consumers did not know what LIBOR was and were not completely sure how it is used to calculate their rate (e.g., one consumer questioned whether the margin was a percentage of her loan or of her interest rate). A few consumers wanted to see historical data for LIBOR, so they could get an idea of how much their rate would vary. One consumer thought this section should mention that there is no prepayment penalty.

Round 3. The only edit made to the Reference Notes section was changing the cap on the margin from 14% to 13%. This was done to correct an inconsistency found between the margins and the starting rates on previous versions of the form. Consumers did not notice this minor discrepancy in previous rounds of testing.

REFERENCE NOTES	
<p>Variable Interest Rate</p> <ul style="list-style-type: none"> This loan has a variable interest rate, that is based on a publicly available index, the London Interbank Offered Rate (LIBOR). Your rate will be calculated each month by adding a margin between 3% and 13% to the LIBOR. 	<p>More information about loan eligibility is available in your loan application and promissory note.</p>
<p>Eligibility Criteria</p> <p>Borrower</p> <ul style="list-style-type: none"> Must be enrolled at an eligible school at least half-time. Must be 18 years or older at the time of loan application. <p>Co-signers</p> <ul style="list-style-type: none"> Not required, but rates are typically higher without a co-signer. Must be 18 years or older at the time of loan application. 	

Many consumers found the reference notes to be generally straightforward. The London Interbank Offered Rate (LIBOR) was less of an issue than in previous rounds.

The margin between 3% and 13% was concerning to some consumers because it was considered to be a wide range and they were unsure how their specific margin would be determined. Some also did not understand how the margin was used to calculate the interest rate; one consumer thought the 3% to 13% was the range your loan could increase every month.

A couple of consumers wondered what the criteria were for a school to be considered “eligible”.

4.2.3. Comparison Shopping Using Application & Solicitation Disclosure

One gauge of the effectiveness of the disclosures is their ability to help consumers make comparisons when shopping alternatives. For purposes of testing this goal, it was assumed that consumers would use the Application & Solicitation Disclosure to compare available loans from different lenders.

The image shows three overlapping screenshots of a "Private Education Loan Disclosure - Application & Solicitation" form. The top-right screenshot is the most complete, showing the following sections:

- Rates:** Current range of available initial rates from 6.45% to 9.25%. Includes a "HOW YOUR SPECIFIC RATE IS DETERMINED" section with bullet points and a "YOUR RATE IS VARIABLE" section.
- Repayment Terms:** Estimated loan term options: less than \$20,000 (25 years, 0 months) and more than \$20,000 (30 years, 0 months).
- Cost Estimates:** Example of total costs over the life of the loan for a \$10,000 loan at 8.25% interest. Includes a table for "IN-SCHOOL REPAYMENT OPTION" with columns for "FINANCE CHARGES" and "TOTAL FOR REPAYMENT".

The middle and bottom-left screenshots show similar sections but with different rate ranges (5.5% to 15.5% and 7.375% to 17.375% respectively) and different repayment term options (e.g., 20 years, 1 month).

Round 1. Consumers in Round 1 of testing used the range of rates as their primary means of comparison when “shopping” for loans. It again became apparent that many consumers viewed the starting rate range as the upper and lower limits of the loan. Consequently, many chose the loan with the smallest range (6.45% to 9.25%), despite the actual maximum rate of 25% for all compared loans.

Some consumers understood that each loan had the same upper limit of 25%, and therefore, chose the loan that offered the lowest starting rate (5.5%) or chose to apply for both the 6.45% and the 5.5% loan to see which lender approved them for a lower starting rate.

Round 2. Like in Round 1 of testing, consumers primarily focused on the starting interest rates range, though significant consideration was also given to the Example Loan Costs table. About half of consumers chose the 6.45% rate, many because of the narrow rate range and lower upper limit of 9.25%. However, some of these consumers based their choice on the 25 year loan term. They believed that the longer term would equate to lower monthly payments.

The other half of consumers either chose the 5.5% because it had the lowest possible starting rate or said they would apply for both (5.5% and 6.45%) and see which one gave them a better rate.

The image displays three overlapping screenshots of a loan disclosure document. The top screenshot shows the 'Loan Rates & Fees' section with interest rates of 6.45% to 9.25%. The middle screenshot shows the same section with interest rates of 5.5% to 15.5%. The bottom screenshot shows the 'Example Loan Costs' table with three repayment options: Defer Payments, Pay the Interest Only, and Make Full Payments.

Loan Rates & Fees

STARTING INTEREST RATES 6.45% to 9.25%
The current range of initial interest rates for this loan.

INTEREST RATE VARIABILITY The Interest Rate will vary but will never exceed 25%.
How rates vary and applicable maximum rates.

FEES Applicable fees associated with this loan.

Application Fee: \$15. **Origination Fee:** The fees that we charge to make this loan a payment. **Late Charge:** 5% of the amount of the past due payment, or \$25, whichever is greater. **Returned check charge:** up to \$25.

Example Loan Costs by In-School Repayment Option

Repayment Options (while continuously enrolled in school)	Loan amount	Interest Rate (highest possible starting rate)	Loan Term (the length of time you have to pay off the loan)	Total Paid (including associated fees)
1. DEFER PAYMENTS Make no payments while enrolled in school. Interest will be charged and added to your loan.	\$10,000.00	9.25%	25 years (starting after the deferment period)	\$36,381.44
2. PAY THE INTEREST ONLY Make interest payments but defer payments on the principal amount.	\$10,000.00	9.25%	25 years (starting after the deferment period)	\$29,852.51
3. MAKE FULL PAYMENTS Pay both the principal and interest amounts.	\$10,000.00	9.25%	25 years (starting from initial payment date)	\$25,690.01

About the Example
The repayment example above is based on the highest starting rate currently available and associated fees. It assumes that the borrower remains in school for 4 years and has a 6 month grace period before beginning repayment.

For loan amounts up to \$25,000, repayment will last 25 years, starting once the initial principal payment is made. For loan amounts more than \$25,000, repayment will last 30 years, starting once the initial principal payment is made.

Round 3. Comparison shopping for the Application & Solicitation Disclosure was not conducted in Round 3 of testing. Instead, consumers were asked to compare two loans using the Approval Disclosure. Findings for this comparison are discussed in the Approval Disclosure section of this report.

4.3. Approval Disclosure





The Approval Disclosure is presented to borrowers after they are approved for a particular loan. Its purpose is to disclose all of the information necessary for the borrower to understand and evaluate the loan being offered by the lender. It is the second of three disclosures shown to prospective private loan borrowers.

4.3.1. General Impressions

Round 1. As in previous rounds of testing, the version of the Approval Disclosure used in Round 1 of the second phase was effective in providing the information consumers felt was useful in deciding on a loan. It also clearly communicated information that consumers felt would allow them to determine the effect of the loan on their financial future. It was also mostly effective in providing critical information clearly and concisely to help consumers analyze the loan deal they were offered.

Approval Disclosure: Round 1	
Can you tell if the loan is a good deal or not by using the form?	8 of 9 said “yes”
Can you tell how taking loan will affect you/ your child in future?	7 of 9 said “yes”
Is enough emphasis put on the info that is relevant to you in making a decision to take private loan or not?	6 of 9 said “yes”





The Approval Disclosure tested in Round 1 of the second phase was viewed as “somewhat easy” in helping consumers evaluate the loan. Organization and readability nearly earned the highest possible rating. Language used was “somewhat easy” to understand, with confusion about some form elements (discussed in the following sections). The form layout worked well in breaking up information in logical pieces for consumers to evaluate.

	Average Rating - among 10 participants -
	<i>Very Easy, the highest possible rating, is represented by 4 stars</i>
How easy is form to use in evaluating private loan?	
What about the <u>organization</u> of the form? How easy is it to follow?	
How <u>easy</u> is it to read the information printed on this form?	
Is the <u>language/terminology</u> clear and understandable?	
Note: 4 Stars = “Very Easy”; 3 Stars = “Somewhat Easy”; 2 Stars = “Somewhat Hard”; 1 Star = “Very Hard”	

Round 2. After Round 1 a few changes were made to the Approval Disclosure before Round 2 of testing (discussed in the following sections). Overall, consumers’ ratings improved on most measures. Nearly all consumers believed they could use the information on the form to evaluate the loan and tell how the loan would affect their financial future. Ten of eleven also felt that enough emphasis was put on the most important information.

Approval Disclosure: Round 2	
Can you tell if the loan is a good deal or not by using the form?	10 of 11 said “yes”
Can you tell how taking loan will affect you/ your child in future?	9 of 11 said “yes”
Is enough emphasis put on the info that is relevant to you in making a decision to take private loan or not?	10 of 11 said “yes”





On average, ratings for the ease of use, organization and readability of the Approval Disclosure remained consistent with Round 1. The form was rated slightly better than in Round 1 for its terminology/language being understandable. The form’s organization and progression from most important information to least were positive aspects commonly mentioned by consumers.

	Average Rating - among 11 participants -
	<i>Very Easy, the highest possible rating, is represented by 4 stars</i>
How easy is form to use in evaluating private loan?	
What about the <u>organization</u> of the form? How easy is it to follow?	
How <u>easy</u> is it to read the information printed on this form?	
Is the <u>language/terminology</u> clear and understandable?	
Note: 4 Stars = “Very Easy”; 3 Stars = “Somewhat Easy”; 2 Stars = “Somewhat Hard”; 1 Star = “Very Hard”	

Round 3. In Round 3 of testing, consumers’ ratings remained fairly consistent with previous rounds. Some consumers struggled to tell if this loan was a good deal or not, which could be due to some issues encountered in understanding the loan fees presented on the form. Nearly all consumers were able to tell how the loan would affect their financial future and everyone felt that the most important information received enough emphasis on the disclosure form.

Approval Disclosure: Round 3	
Can you tell if the loan is a good deal or not by using the form?	7 of 10 said “yes”
Can you tell how taking loan will affect you/ your child in future?	9 of 10 said “yes”
Is enough emphasis put on the info that is relevant to you in making a decision to take private loan or not?	10 of 10 said “yes”

This form was rated slightly better than in previous rounds in its usability to easily evaluate the private loan being considered. This area, as well as the rest of the areas measured averaged ratings of nearly “very easy”.

	Average Rating - among 10 participants -
	<i>Very Easy, the highest possible rating, is represented by 4 stars</i>
How easy is form to use in evaluating private loan?	
What about the <u>organization</u> of the form? How easy is it to follow?	
How <u>easy is it to read</u> the information printed on this form?	
Is the <u>language/terminology</u> clear and understandable?	
Note: 4 Stars = “Very Easy”; 3 Stars = “Somewhat Easy”; 2 Stars = “Somewhat Hard”; 1 Star = “Very Hard”	

The following section provides detailed findings from consumers’ evaluation of the Approval Disclosure in each round of testing.

4.3.2. Reactions to Detailed Elements of Approval Disclosure

The Approval Disclosure tested in Round 1 of the second phase of testing included six sections: Borrower and Creditor Information, Loan Rates & Estimated Total Costs, Estimated Repayment Schedule & Terms, Federal Loan Alternatives, Next Steps & Terms of Acceptance, and Reference Notes.

For Rounds 2 and 3 of testing, the disclosure was redesigned to better address the informational needs of consumers. The information was presented in six sections and included the following: Borrower and Creditor Information, Loan Rates & Estimated Total Costs, Estimated Repayment Schedule & Terms, Federal Loan Alternatives, Next Steps and Reference Notes.

4.3.2.1. Borrower and Creditor Information Section of Approval Disclosure

Round 1. The top of the initial Approval Disclosure lists the borrower and creditor contact information. Unlike previous versions of the disclosure, no introductory information is provided about the form.

Page 1 of 2	
BORROWER:	CREDITOR:
Christopher Smith Jr. 1492 Columbus Way Plymouth, MA 02360	First ABC Bank 12345 1st St Anytown, CA 93120

The information presented in this section did not warrant comment by consumers, as their attention was drawn immediately to the Loan Rates section below this one. There were no actual mentions of the information and no suggestions for improvements were made.

Round 2. This section was not changed significantly for Round 2 of testing due to its implied acceptance by consumers in Round 1.

Page 1 of 2	
BORROWER:	CREDITOR:
Christopher Smith Jr. 1492 Columbus Way Plymouth, MA 02360	First ABC Bank 12345 1st St Anytown, CA 93120

Similar to Round 1, consumers focused immediately on the Rates section, and did not pay much attention to the borrower/creditor information.

Round 3. No changes were made to the Creditor or Borrower Information.

Page 1 of 2	
BORROWER: Christopher Smith Jr. 1492 Columbus Way Plymouth, MA 02360	CREDITOR: First ABC Bank 12345 1st St Anytown, CA 93120

Like the previous rounds, this section was rarely mentioned. The one consumer who did take note of it felt it was good to give both parties' information upfront.

4.3.2.2. *Loan Rates & Estimated Total Costs Section of Approval Disclosure*

The Loan Rates & Estimated Total Costs section was intended to clearly communicate the amount financed, interest rate of the loan, finance charge, total of payments, rate variability, maximum interest rate, annual percentage rate (APR), and fees associated with the loan.

Loan Rates & Estimated Total Costs			
Amount Financed	Interest Rate	Finance Charge	Total of Payments
\$10,000.00	7.375%	\$15,506.74	\$ 25,506.74
The amount of credit provided to you or on your behalf.	Your current interest rate	The estimated dollar amount the credit will cost you.	The estimated amount you will have paid when you have made all payments.
<p>YOUR RATE IS VARIABLE</p> <p>A variable rate means that your actual rate could be higher or lower than the interest rate indicated on this form, but will never exceed a maximum of 25%. The variable rate is calculated using a publicly available index. For more information on this variable rate, see notes on next page.</p> <p>Based on the current interest rate, your estimated annual percentage rate (APR), which is the cost of your loan as a yearly rate, is 7.069%.</p>			
ITEMIZATION OF AMOUNT FINANCED		OTHER FEES	
Loan Amount	\$10,000.00	• Late Charge: 5% of the amount of the past due payment, or \$25, whichever is greater.	
Lender Fee to make the loan (Origination Fee)	\$0.00	Returned check charge: up to \$25.	
Total Amount Financed	\$10,000.00		

Round 1. As in previous rounds of testing, consumers liked the organization of this section with the boxes across the top showing Amount Financed through Total of Payments. The layout made the cost of taking the loan clear to most consumers. The boxes were also easy to read, provided the most important information about the loan, and drew consumers’ attention as a result of the emphasis achieved through bolding and highlighting.

Nearly all consumers understood that the “Amount Financed” in this example was the original loan amount. Nearly all were also clear about the interest rate and how it related to the starting interest rate range in the Application & Solicitation Disclosure. Some even flipped back to the Application & Solicitation Disclosure to compare the lowest starting rate on that form to the rate they were “approved” for in this example. The Finance Charge was clear and most saw the logic in how Total of Payments was calculated. However, it was still apparent that most considered these to be the actual amounts and not an example. Despite the clarity of interest rate variability on the Application & Solicitation Disclosure form and the reiteration of this fact on the Approval form, the concept did not stick in the minds of consumers.

Your Rate is Variable

This paragraph was clearer to consumers than it was in previous rounds of testing. As consumers reviewed the information, most understood that the rate is variable even if they did not completely understand how this would affect the finance charges or the total of payments. They were clear, upon reading, that the maximum interest rate for the loan is 25% and that the variability is based on an index they could get more information about in another part of the form.

As consumers reviewed the Annual Percentage Rate information, most did not question why the APR and interest rate were different because they were familiar with the two rates being slightly different. However, it was very apparent that none understood the reason behind the difference.

Itemization of Amount Financed & Other Fees

Both of these sections were clear to consumers and none had questions about them.

Round 2. Based on Round 1 testing, a few minor changes were introduced in Round 2. The font size of the APR was increased to make it more prominent. The actual APR also changed from 7.039% to 8.23%. This was done to determine if the APR was somewhat ignored in Round 1 due to the small gap between the APR and interest rate or if other factors were the cause.

For Round 2 of testing, the origination fee was increased from no fee to \$600. Consumers in Round 1 paid little attention to the origination fee, but it was unclear if this was because there was no fee and did not impact the loan or if other factors caused consumers to disregard it. Between rounds, it was hypothesized that if consumers were faced with a significant fee, they would spend more time reviewing this part of the form.

As mentioned in the Application & Solicitation Disclosure form, a Repayment Fee was also added under “Other Fees”.

Loan Rates & Estimated Total Costs

Amount Financed	Interest Rate	Finance Charge	Total of Payments
\$10,000.00	7.375%	\$18,541.24	\$ 28,541.24
The amount of credit provided to you or on your behalf.	Your current interest rate.	The estimated dollar amount the credit will cost you.	The estimated amount you will have paid when you have made all payments.

YOUR RATE IS VARIABLE
 A variable rate means that your actual rate could be higher or lower than the interest rate indicated on this form, but will **never exceed a maximum of 25%**. The variable rate is calculated using a publicly available index. For more information on this variable rate, see notes on next page.

Based on the current interest rate, your estimated **Annual Percentage Rate (APR)**, which is the cost of your loan as a yearly rate, is **8.23%**.

ITEMIZATION OF AMOUNT FINANCED	OTHER FEES						
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Loan Amount</td> <td style="text-align: right;">\$10,600.00</td> </tr> <tr> <td>Less Lender Fee to make the loan (Origination Fee)</td> <td style="text-align: right;">\$600.00</td> </tr> <tr> <td>Total Amount Financed</td> <td style="text-align: right;">\$10,000.00</td> </tr> </table>	Loan Amount	\$10,600.00	Less Lender Fee to make the loan (Origination Fee)	\$600.00	Total Amount Financed	\$10,000.00	<ul style="list-style-type: none"> • Late Charge: 5% of the amount of the past due payment, or \$25, whichever is greater. • Returned check charge: up to \$25. • Fee upon entering repayment: 3.5% of loan balance.
Loan Amount	\$10,600.00						
Less Lender Fee to make the loan (Origination Fee)	\$600.00						
Total Amount Financed	\$10,000.00						

Most consumers viewed the Loan Rates and Estimated Total Costs as the most important part of the form. Accordingly, they were pleased that it was placed predominately at the top of the form in large font. Most consumers understood the information in these boxes similar to Round 1.

Your Rate Is Variable

Most consumers understood that the rate shown (7.375%) is a variable interest rate and how that affects the loan. The basis of rate variation was less apparent to consumers because they did not see the note that referred them to the Reference Notes or did not understand it. One consumer suggested putting an asterisk or some other type of notation directing the reader to the Variable Rate information in the reference notes that explains it.

Some consumers in this round commented on the maximum rate and asked for examples of the total amount or monthly payments based on that rate, similar to how the Application & Solicitation Disclosure form showed the worst case scenario. The 25% maximum rate caused confusion for a couple of consumers who were unable to reconcile the difference between it and the highest starting interest rate on the Application & Solicitation Disclosure, 17.375%.

All consumers were able to locate the APR, but only a few understood what it represented. One consumer thought the interest rate was an introductory offer and the rate would increase to the 8.23% APR after the introductory period was over. Another thought it was simply the interest rate on an annual basis (not mentioning the adjustments for fees, deferment, etc). Despite this lack of understanding, most did not raise concerns about the APR being higher than the interest rate; they placed more importance on the interest rate (7.375%).

Itemization of Amount Financed

This table created some confusion among consumers. Most were unable to tell how the origination fee would be paid, and consequently, how much money they would end up receiving to pay for school. It was unclear if they were expected to pay the fee out of pocket, if the amount financed was actually \$10,600, or if they would only receive \$9,400 of \$10,000 financed. The origination fee itself was generally understood, but not accepted by consumers; one said that she would not take an education loan that charged an origination fee.

Changing the forms to show an origination fee elicited more questions and comments than in previous rounds when the origination fee was set to \$0.

Other Fees

As in Round 1 of testing, some expressed confusion over the Repayment Fee mentioned on the form. One consumer questioned whether or not it was a one-time fee, while another thought the 3.5% was added to the interest rate.

Round 3. In Round 3, updates were made to this section to better communicate the fees, as well as to indicate where the loan funds would be applied. The itemization table was moved to the far left of the page and displayed the following: The “Amount paid to you” plus the “Amount paid to others” equals the “Total Amount Financed”. The “Total Amount Financed” plus the “Initial finance charges” equals the “Total Loan Amount”.

Additionally, the maximum rate information was communicated in a separate bullet and shaded to add emphasis.

The Loan Guarantee fee was also added to the Approval Disclosure. It was shown as an Initial finance charge in the Itemization table.

Loan Rates & Estimated Total Costs

Total Loan Amount	Interest Rate	Finance Charge	Total of Payments
\$10,600.00	7.375%	\$18,541.24	\$ 28,541.24
The total amount you are borrowing.	Your current interest rate.	The estimated dollar amount the credit will cost you.	The estimated amount you will have paid when you have made all payments.

<p>ITEMIZATION OF AMOUNT FINANCED</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 2px;">Amount paid to you</td> <td style="padding: 2px; text-align: right;">\$0.00</td> </tr> <tr> <td style="padding: 2px;">Amount paid to others on your Behalf:</td> <td style="padding: 2px; text-align: right;">+ \$10,000</td> </tr> <tr> <td style="padding: 2px;">• Pennsylvania State University</td> <td></td> </tr> <tr> <td style="padding: 2px;">Total Amount Financed</td> <td style="padding: 2px; text-align: right;">= \$10,000</td> </tr> <tr> <td style="padding: 2px;">Initial finance charges (total)</td> <td style="padding: 2px; text-align: right;">+ \$600</td> </tr> <tr> <td style="padding: 2px;">• Origination Fee (\$300)</td> <td></td> </tr> <tr> <td style="padding: 2px;">• Loan Guarantee Fee (\$300)</td> <td></td> </tr> <tr> <td style="padding: 2px;">Total Loan Amount</td> <td style="padding: 2px; text-align: right;">= \$10,600</td> </tr> </table>	Amount paid to you	\$0.00	Amount paid to others on your Behalf:	+ \$10,000	• Pennsylvania State University		Total Amount Financed	= \$10,000	Initial finance charges (total)	+ \$600	• Origination Fee (\$300)		• Loan Guarantee Fee (\$300)		Total Loan Amount	= \$10,600	<p>ABOUT YOUR INTEREST RATE</p> <ul style="list-style-type: none"> • Your rate is variable. This means that your actual rate varies with the market and could be lower or higher than the rate indicated on this form. The variable rate is calculated using a publicly available index. For more information on this rate, see reference notes. • Although your rate will vary, it will never exceed 25% (the maximum allowable for this loan). • Your Annual Percentage Rate (APR) is 8.23%. The APR is typically different than the Interest Rate since it considers fees and then reflects the cost of your loan as a yearly rate. For more information about the APR, see reference notes. <p>FEES</p> <ul style="list-style-type: none"> • Late Charge: 5% of the amount of the past due payment, or \$25, whichever is greater. • Returned check charge: up to \$25. • Fee upon entering repayment: 3.5% of loan balance.
Amount paid to you	\$0.00																
Amount paid to others on your Behalf:	+ \$10,000																
• Pennsylvania State University																	
Total Amount Financed	= \$10,000																
Initial finance charges (total)	+ \$600																
• Origination Fee (\$300)																	
• Loan Guarantee Fee (\$300)																	
Total Loan Amount	= \$10,600																

Most consumers understood the math in the boxes across the top. A few initially thought the \$10,600 was the loan amount that they had requested, but upon reading the itemization table, they understood that the figure included the initial finance charges.

About Your Interest Rate

The “Your Rate is Variable” paragraph on this form worked better in explaining the variability of the interest rate compared to similar information presented on the Application & Solicitation Disclosure. It cleared up any lingering confusion consumers had about the variability of the loan. One consumer suggested modifying the “publicly available index” notation and listing LIBOR to be consistent with the Application & Solicitation Disclosure.

Consumers understood the APR information better than in previous rounds, including how the APR works. However, many were still not completely clear about what the APR represented. Many correctly understood that the APR is the interest rate on a yearly basis, but only some understood how fees affect this calculation. A few consumers thought the APR was an additional rate that would be added to the interest rate.

A few consumers felt not enough emphasis was placed on the Variable Interest Rate and APR information and believed both could be easily overlooked.

Itemization of Amount Financed

As noted above, the Itemization table helped explain the basis for the amounts displayed in the boxes at the top. Consumers liked that the form specified where the funds were going to be disbursed and the amounts going to each entity.

Fees

Overall, consumers understood that fees would be assessed on the loan. Some questions arose regarding the “Fee upon entering repayment”. One consumer was unsure if the repayment fee is based on their loan balance at the time they actually make their first payment or at the time of their first scheduled payment. The Origination and Loan Guarantee fees also raised some questions, but to a lesser degree.

Consumers liked seeing the fees in specific dollar amounts on this form versus the percentage ranges provided on the Application & Solicitation Disclosure. It was very clear that consumers preferred and were drawn to information presented in actual dollars as opposed to other ways of conveying the same type of information.

4.3.2.3. Estimated Repayment Schedule & Terms Section of Approval Disclosure

The Estimated Repayment Schedule & Terms section was designed to communicate the estimated monthly payments in school and after graduation over the life of the loan. The information testing was based on a \$10,000 loan at a 7.375% interest rate and at the maximum interest of 25%, or the worst-case scenario. The example also disclosed the Total of Payments at the maximum rate of interest if it were to hold constant through the life of the loan.

Estimated Repayment Schedule & Terms			
PAYMENT SCHEDULE	MONTHLY PAYMENTS		◀ The estimated Total of Payments at the Maximum Rate of interest would be \$107,015.69
	at 7.375% the current rate of your loan	at 25% the maximum rate possible with your loan	
20 Year Loan Term			
Sep 1, 2009 - Feb 28, 2014 deferment period	No payment required (\$3,818.75 in interest will accrue during this time)	No payment required (interest will accrue during this time)	
Mar 1, 2014 - Jan 31, 2034 239 monthly payments	\$106.28	\$445.87	
Feb 1, 2034 1 monthly payment	\$105.82	\$452.76	

Round 1. As in previous rounds of testing, most focused on this information because of the dollar amounts it provides. All consumers liked the monthly payment information and the side-by-side of the current rate and the worst case scenario interest rate. As with the example finance charge and total of payments provided in the Loan Rates & Estimated Total Costs section, some took these as the actual monthly payment amounts for the life of the loan and seemed to forget about the variability of their interest rate. There was some confusion about the payment schedule and whether it represents the real schedule for the loan they would be taking or if it is just an example. This may be clearer to the users of the disclosure during the actual loan process when dates and terms apply to their own situation.

Some questioned why the last loan payment is singled-out in the example and why the amount is slightly different than all of the other payments. Only a few read and commented on the “Total of Payments” note to the right of the table, which they felt was good information to have.

Round 2. The Estimated Repayment Schedule and Terms underwent some minor changes for Round 2 of testing. The “Payment Schedule” header was removed from the table so that more emphasis could be placed on the loan term itself. Also, in the descriptions for the interest rates, the word “interest” was added to help clarify which “rates” these numbers were referencing.

Estimated Repayment Schedule & Terms		
20 YEAR LOAN TERM	MONTHLY PAYMENTS	
	at 7.375% the current interest rate of your loan	at 25% the maximum interest rate possible with your loan
Sep 1, 2009 - Oct 31, 2013 deferment period	No payment required (\$3,799.87 in interest will accrue during this time)	No payment required (interest will accrue during this time)
Nov 1, 2013 - Sep 30, 2033 239 monthly payments	\$118.93	\$645.41
Oct 1, 2033 1 monthly payment	\$116.97	\$674.63

◀ The estimated **Total of Payments** at the Maximum Rate of Interest would be **\$154,927.62**

As in Round 1, this table was a focal point for consumers. Many liked it and appreciated seeing the monthly payment information. Most consumers felt it gave them a tangible idea of what they could expect for their specific rate, as well as the maximum rate. Many noticed the “Total of Payments” information at the maximum rate and were “scared” by it. However, most thought it was helpful and “eye-opening” information to include on the form.

Other questions that arose regarding the table included:

- ▶ How are the dollar amounts calculated? Are they based on the APR?
- ▶ Why is the table showing 25% instead of the 17.375% on the previous form?
- ▶ What if the student stayed in school past October 31, 2013? Would the payments continue to be deferred?
- ▶ Is the interest accrued at the maximum rate the same as at 7.375%? Why don't they show the interest accrued for the 25% example?
- ▶ Why is there a separate payment at the end of the loan term?

Round 3. Due to general acceptance in Round 2, the Estimated Repayment Schedule and Terms did not change for Round 3 of testing.

Estimated Repayment Schedule & Terms			
20 YEAR LOAN TERM	MONTHLY PAYMENTS		◀ The estimated Total of Payments at the Maximum Rate of Interest would be \$154,927.62
	at 7.375% the current interest rate of your loan	at 25% the maximum interest rate possible with your loan	
Sep 1, 2009 - Oct 31, 2013 deferment period	No payment required (\$3,799.67 in interest will accrue during this time)	No payment required (interest will accrue during this time)	
Nov 1, 2013 - Sep 30, 2033 239 monthly payments	\$118.93	\$645.41	
Oct 1, 2033 1 monthly payment	\$116.97	\$674.63	

As in Round 2 of testing, consumers liked and understood this table. They found it helpful to see the actual dollar amounts for the same reasons as cited in Round 2. Some consumers became apprehensive of this loan after seeing this table and realizing the financial commitment they would be making.

A few consumers thought the maximum rate examples showing monthly payments of over \$600 and a total of payments over \$150,000 were too extreme and irrelevant since they would most likely not apply to them. Some asked to see an example in between the 7.375% and 25% interest rates. A couple of consumers also liked seeing the amount of interest that was accrued during the deferment period, though they questioned why this amount was not given for the 25% example.

As seen in previous rounds, a few consumers did not understand why there is one payment of a different amount at the end of the term.

4.3.2.4. Federal Loan Alternatives Section of Approval Disclosure

At the top of the second page of the initial Approval Disclosure, information was provided on Federal loan options. The purpose was to ensure consumers' awareness of these loans after they are given their private loan offer and before they accept it. Many consumers do not feel they can adequately compare loans at the Application & Solicitation phase, so if they decide to shop at this point, they will be reminded of these alternatives. This section is identical to the one in the Application & Solicitation Disclosure.

Federal Loan Alternatives		
Loan program	Current Interest Rates	
PERKINS for Students	5% fixed	
STAFFORD for Students	6% fixed	Undergraduate subsidized
	6.8% fixed	Undergraduate unsubsidized & Graduate
PLUS for Parents	8.5% fixed	Federal Family Education Loan
	7.9% fixed	Federal Direct Loan

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You may qualify for Federal education loans.
For additional information, contact your school's financial aid office or the Department of Education at: federalstudentaid.ed.gov

Round 1. As in previous rounds of testing, some consumers found this information useful to be included again, but others believed it to be redundant with information they would have already seen and considered in the Application & Solicitation Disclosure. However, those who felt it was redundant did not have strong feelings about taking the information off the form. Given the importance of this information to the least savvy borrowers, it is critical to keep this information on the disclosure.

A few also questioned the placement of the information and would have preferred to see it after all of the information relevant to the private loan (i.e., at the very bottom of the second page). In terms of flow, the section worked better at the top of the second page than at the bottom of the first page as it appeared on the Application & Solicitation Disclosure in Round 1.

Round 2. The Federal Loan Alternatives information was included again in Round 2 on the Approval Disclosure since it was not problematic to consumers in Round 1. This section was identical to the Federal Loan Alternative section on the Application & Solicitation Disclosure form.

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Federal Loan Alternatives

Loan program	Current Interest Rates	
PERKINS for Students	5% fixed	
STAFFORD for Students	6% fixed	Undergraduate subsidized
	6.8% fixed	Undergraduate unsubsidized & Graduate
PLUS for Parents and Graduate / Professional Students	8.5% fixed	Federal Family Education Loan
	7.9% fixed	Federal Direct Loan

You may qualify for Federal education loans.
 For additional information, **contact your school's financial aid office or the Department of Education at:**
federalstudentaid.ed.gov

Many consumers in Round 2 did not expect this information to be included on a form for a private loan. Most believed it was a consumer's responsibility to seek and a school's obligation to provide the information. That being said, like in previous rounds of testing, most felt that this information was useful to have and did not necessarily object to it being included. In fact, some saw it as a commendable gesture by the lender to include it.

Round 3. Consumers approved of the Federal Loan Alternatives section in the previous two rounds of testing; therefore, no changes (with the exception of minor formatting edits) were made to this section for Round 3 of testing.

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Federal Loan Alternatives

Loan program	Current Interest Rates	
PERKINS for Students	5% fixed	
STAFFORD for Students	6% fixed	Undergraduate subsidized
	6.8% fixed	Undergraduate unsubsidized & Graduate
PLUS for Parents and Graduate / Professional Students	8.5% fixed	Federal Family Education Loan
	7.9% fixed	Federal Direct Loan

You may qualify for Federal education loans.
 For additional information, **contact your school's financial aid office or the Department of Education at:**
federalstudentaid.ed.gov

Consumers felt that these options should have already been investigated at this point in the process. However, most felt that it was still good to show these alternatives to alert consumers that they should look into these loans if they had not already. One consumer felt that it was good to have these alternative loan terms on this form, because at this point, she would know the actual starting rate of her private loan, so she would be better able to compare the options.

4.3.2.5. Next Steps & Terms of Acceptance Section of Approval Disclosure

The Next Steps and Terms of Acceptance section is intended to make it clear to consumers that they have until a specific date to accept the loan as stated in the Approval Disclosure, how they can accept the loan, and remind them to consider Federal loan options.

Next Steps & Terms of Acceptance	
<p>This offer is good until:</p> <div style="border: 1px solid black; padding: 5px; text-align: center; margin: 5px 0;"> <p>May 2, 2009</p> </div> <p>If you have not accepted by May 2, 2009 we may change the terms of this offer.</p>	<ol style="list-style-type: none"> 1. Find Out More About Other Loan Options. Some schools have school-specific student loan benefits and terms not detailed on this form. Contact your school's financial aid office for more information. 2. The Terms of this Loan Offer Are Good for 30 days. You have 30 days from the approval date to accept this offer. The terms of this offer will not change, except that the interest rate may vary with the market rate listed above. To accept the terms, contact us at: <div style="text-align: center;"> <p>First ABC Bank 12345 1st St Anytown, CA 93120 (800) 555 - 5555</p> </div>

Round 1. The information in this section was very clear to all consumers. All understood the time limitations they would have to accept the loan terms and what to do to accept them. A few suggested that the creditor contact information be more heavily emphasized.

Round 2. In Round 2, the Next Steps and Terms of Acceptance section was the same as the section tested in Round 1. Since there was little confusion among consumers in Round 1 of testing, the section remained unchanged in Round 2 except for a change in the date used.

Next Steps & Terms of Acceptance	
<p>This offer is good until:</p> <div style="border: 1px solid black; padding: 5px; text-align: center; margin: 5px 0;"> <p>June 1, 2009</p> </div> <p>If you have not accepted by June 1, 2009, we may change the terms of this offer.</p>	<ol style="list-style-type: none"> 1. Find Out More About Other Loan Options. Some schools have school-specific student loan benefits and terms not detailed on this form. Contact your school's financial aid office for more information. 2. The Terms of this Loan Offer Are Good for 30 days. You have 30 days from the approval date to accept this offer. The terms of this offer will not change, except that the interest rate may vary with the market rate listed above. To accept the terms, contact us at: <div style="text-align: center;"> <p>First ABC Bank 12345 1st St Anytown, CA 93120 (800) 555 - 5555</p> </div>

Like Round 1, this section was clear to consumers and did its job in communicating the deadline for accepting the offer. Consumers were well aware of how they would accept the loan. A few consumers suggested moving this section in front of the Federal Loan Alternatives section, so it immediately follows the private loan information to which these next steps apply. After reviewing

the Final Disclosure, one consumer suggested including a notification communicating that consumers would have 3 days to cancel the loan after closing.

Round 3. The Next Steps and Terms of Acceptance underwent a couple of updates after the second round of testing. The main change was the addition of a bulleted list below the second (#2) item. These bullets were added to draw consumers' attention to the possible changes that could occur between the date of receiving loan approval information and the deadline to accept the offer.

The deadline date was also updated to provide a more relevant timeframe.

Next Steps & Terms of Acceptance

This offer is good until:

August 1, 2009

- 1. Find Out More About Other Loan Options.**
Some schools have school-specific student loan benefits and terms not detailed on this form. Contact your school's financial aid office for more information.

- 2. You Have Until August 1, 2009 to Accept this Offer**
The terms of this offer will not change with the following exceptions:
 - the interest rate may vary with the market.
 - the information on your application will be verified to ensure you meet the eligibility and legal requirements for this loan.
 - your school will be asked to verify that you are eligible for the approved loan amount.

To Accept the Terms of this loan, contact us at
First ABC Bank,
12345 1st Street,
Anytown, CA 93120,
(800) 555 - 5555

Consumers were clear about the deadline of August 1, 2009 to accept the loan offer. Most read through the bullets without much comment, but understood that some terms of the loan may change in the interim period before they accept the loan. One consumer wondered what would happen if she accepted and then was found ineligible to receive the loan amount (referencing the third bullet in item #2).

A couple of consumers did not think that the call to action and the corresponding contact information was noticeable enough.

4.3.2.5. Reference Notes Section of Approval Disclosure

The Reference Notes in the initial Approval Disclosure were designed to provide additional information and detail required in the disclosure. The notes discuss how the variable interest rate works, APR information, bankruptcy limitations, repayment options information and prepayment information.

REFERENCE NOTES	
<p>Variable Interest Rate:</p> <ul style="list-style-type: none"> Your loan has a variable interest rate, that is based on a publicly available index, the London Interbank Offered Rate (LIBOR), which is currently 4.875%. Your rate is calculated each month by adding a margin of 8% to the LIBOR. The interest rate may be higher or lower than your Annual Percentage Rate (APR) because the APR accounts for the interest rate and certain fees you must pay to obtain this loan, and whether you defer (postpone) payments while in school. The rate will not increase more than once a month, but there is no limit on the amount that the rate could increase at one time. Your rate will never exceed 25%. Any increase will take the form of higher monthly payments. <p>Bankruptcy Limitations</p> <ul style="list-style-type: none"> if you file for bankruptcy you may still be required to pay back this loan. 	<p>Repayment Options:</p> <ul style="list-style-type: none"> Although you elected to defer (postpone) payments, you can still make payments during this time. You can also choose to change your deferment choice to: Pay Interest Only or Make Full Payments. <p>Prepayments:</p> <ul style="list-style-type: none"> If you pay off early, you will not have to pay a penalty. You will not be entitled to a refund of part of the finance charge. <p>See your contract documents for any additional information about non-payment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.</p>

Round 1. As in the Application & Solicitation Disclosure, the reference notes regarding the “Variable Interest Rate” were fairly clear, but some got hung-up on the London Interbank Rate and why it is used as opposed to another more familiar rate. The same uncertainty, as with the Application & Solicitation Disclosure, arose about APR and interest rate as consumers read over the information in the first bullet. Most were comfortable with the explanation, although none seemed to have a clear understanding of how the two rates differ. The second bullet in the section was clear to all and most retained this information. Some found the third bullet slightly redundant because it seems to state the obvious.

The bankruptcy limitations information was clear to all who reviewed it.

Of those who commented on the repayment options information, most felt that it was good information to have.

The prepayment information was fairly clear to most but some were left wondering what “part of the finance charge” in the second sentence referred to. Clarification of this information is needed.

Round 2. The Reference Notes section did not undergo any changes for Round 2 of testing.

REFERENCE NOTES	
<p>Variable Interest Rate:</p> <ul style="list-style-type: none"> Your loan has a variable interest rate that is based on a publicly available index, the London Interbank Offered Rate (LIBOR), which is currently 4.375%. Your rate is calculated each month by adding a margin of 3% to the LIBOR. The interest rate may be higher or lower than your Annual Percentage Rate (APR) because the APR accounts for the Interest Rate and certain fees you must pay to obtain this loan, and whether you defer (postpone) payments while in school. The rate will not increase more than once a month, but there is no limit on the amount that the rate could increase at one time. Your rate will never exceed 25%. Any increase will take the form of higher monthly payments. <p>Bankruptcy Limitations</p> <ul style="list-style-type: none"> If you file for bankruptcy you may still be required to pay back this loan. 	<p>Repayment Options:</p> <ul style="list-style-type: none"> Although you elected to postpone payments, you can still make payments during this time. You can also choose to change your deferment choice to: Pay Interest Only or Make Full Payments. <p>Prepayments:</p> <ul style="list-style-type: none"> If you pay off early, you will not have to pay a penalty. You will not be entitled to a refund of part of the finance charge. <p>See your contract documents for any additional information about non-payment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.</p>

The information under “Variable Interest Rate” clarified the rate variability and APR for consumers. However, some confusion still remained. One consumer viewed the LIBOR as an additional fee tacked on to the loan, while another was still under the impression that the variability was based on the borrower’s credit after reading the reference notes. Some consumers mentioned that they wanted to see historical data for the LIBOR to better understand the degree to which they could expect it to vary.

The bankruptcy limitations information was mentioned by a few consumers who liked that this “warning” was provided on the disclosure.

The prepayment information was also a point of interest to a couple of consumers and they understood it.

Round 3. For Round 3 of testing, the APR information was broken out into a separate bullet point to make it more prominent. In previous rounds of testing, some consumers missed the APR information when it was presented in combination with the Variable Interest Rate information.

REFERENCE NOTES**Variable Interest Rate:**

- Your loan has a variable interest rate that is based on a publicly available index, the London Interbank Offered Rate (LIBOR), which is currently 4.375%. Your rate is calculated each month by adding a margin of 3% to the LIBOR.
- The interest rate may be higher or lower than your Annual Percentage Rate (APR) because the APR accounts for the Interest Rate and certain fees you must pay to obtain this loan, and whether you defer (postpone) payments while in school.
- The rate will not increase more than once a month, but there is no limit on the amount that the rate could increase at one time. Your rate will never exceed 25%.
- Any increase will take the form of higher monthly payments.

Bankruptcy Limitations

- If you file for bankruptcy you may still be required to pay back this loan.

Repayment Options:

- Although you elected to postpone payments, you can still make payments during this time. You can also choose to change your deferment choice to: Pay Interest Only or Make Full Payments.

Prepayments:

- If you pay off early, you will not have to pay a penalty. You will not be entitled to a refund of part of the finance charge.

See your contract documents for any additional information about non-payment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

Most consumers found the information regarding calculation of the variable interest rate to be clear. As in previous rounds, some asked to see historical data for the LIBOR index. One consumer questioned whether the margins could change if his credit improved or worsened. Another consumer wondered when the LIBOR index was applied to the loan's interest rate (e.g. 1st of the month, 15th of the month, last day of the month, etc).

Similar to Round 1, the prepayment information was still not clear to some consumers. Those who commented about this information wanted more specifics about what "part of the finance charge" they would not be entitled to a refund. One consumer thought that if you pre-pay, you are not entitled to a refund, but if you switch to a different repayment option you would get a refund.

4.3.3. Comparison Shopping Using Approval Disclosure

Round 3 (only round tested). To gain perspective on the shopping process at the time of approval, an alternate Approval Disclosure form was created to be compared to the one shown in Round 3. The alternate form had fewer fees which resulted in a lower APR. However, its interest rate was higher than the original form shown to consumers.

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BORROWER:
Christopher Smith Jr.
1492 Columbus Way
Plymouth, MA 02360

CREDITOR:
First ABC Bank
12345 1st St
Anytown, CA 93120

Loan Rates & Estimated Total Costs

Total Loan Amount	Interest Rate	Finance Charge	Total of Payments
\$10,600.00	7.375%	\$18,541.24	\$ 28,541.24

The total amount you are borrowing. Your current interest rate. The estimated dollar amount the credit will cost you. The estimated amount you will have paid when you have made all payments.

ITEMIZATION OF AMOUNT FINANCED

Amount paid to you	\$0.00
Amount paid to others on your behalf:	+ \$10,000
• Pennsylvania State University	
Total Amount Financed	= \$10,000
Initial finance charges (total):	+ \$600
• Origination Fee (\$300)	
• Loan Guarantee Fee (\$300)	
Total Loan Amount	= \$10,600

ABOUT YOUR INTEREST RATE

- Your rate is variable. This means that your actual rate varies with the market and could be lower or higher than the rate indicated on this form. The variable rate is calculated using a publicly available index. For more information on this rate, see reference notes.
- Although your rate will vary, it will never exceed 25% (the maximum allowable for this loan).
- Your Annual Percentage Rate (APR) is 8.23%. The APR is typically different than the Interest Rate since it considers fees and then reflects the cost of your loan as a yearly rate. For more information about the APR, see reference notes.

FEES

- Late Charge: 5% of the amount of the past due payment, or \$25, whichever is greater.
- Returned check charge: up to \$25.
- Fee upon entering repayment: 3.5% of loan balance.

Estimated Repayment Schedule & Terms

20 YEAR LOAN TERM	MONTHLY PAYMENTS		The estimated Total of Payments at the Maximum Rate of Interest would be \$154,927.62
	at 7.375% the current interest rate of your loan	at 25% the maximum interest rate possible with your loan	
Sep 1, 2009 - Oct 31, 2013 deferment period	No payment required (\$3,799.67 in interest will accrue during this time)	No payment required (interest will accrue during this time)	
Nov 1, 2013 - Sep 30, 2033 239 monthly payments	\$118.93	\$645.41	
Oct 1, 2033 1 monthly payment	\$116.97	\$674.63	

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BORROWER:
Christopher Smith Jr.
1492 Columbus Way
Plymouth, MA 02360

CREDITOR:
First ABC Bank
12345 1st St
Anytown, CA 93120

Loan Rates & Estimated Total Costs

Total Loan Amount	Interest Rate	Finance Charge	Total of Payments
\$10,300.00	7.5%	\$17,309.61	\$ 27,309.61

The total amount you are borrowing. Your current interest rate. The estimated dollar amount the credit will cost you. The estimated amount you will have paid when you have made all payments.

ITEMIZATION OF AMOUNT FINANCED

Amount paid to you	\$0.00
Amount paid to others on your behalf:	+ \$10,000
• Pennsylvania State University	
Total Amount Financed	= \$10,000
Initial finance charges (total):	+ \$300
• Origination Fee (\$300)	
Total Loan Amount	= \$10,300

ABOUT YOUR INTEREST RATE

- Your rate is variable. This means that your actual rate varies with the market and could be lower or higher than the rate indicated on this form. The variable rate is calculated using a publicly available index. For more information on this rate, see reference notes.
- Although your rate will vary, it will never exceed 25% (the maximum allowable for this loan).
- Your Annual Percentage Rate (APR) is 7.85%. The APR is typically different than the Interest Rate since it considers fees and then reflects the cost of your loan as a yearly rate. For more information about the APR, see reference notes.

FEES

- Late Charge: 5% of the amount of the past due payment, or \$25, whichever is greater.
- Returned check charge: up to \$25.

Estimated Repayment Schedule & Terms

20 YEAR LOAN TERM	MONTHLY PAYMENTS		The estimated Total of Payments at the Maximum Rate of Interest would be \$145,580.95
	at 7.5% the current interest rate of your loan	at 25% the maximum interest rate possible with your loan	
Sep 1, 2009 - Oct 31, 2013 deferment period	No payment required (\$3,824.95 in interest will accrue during this time)	No payment required (interest will accrue during this time)	
Nov 1, 2013 - Sep 30, 2033 239 monthly payments	\$113.79	\$605.73	
Oct 1, 2033 1 monthly payment	\$113.80	\$611.48	

All of the consumers selected the alternative form with the 7.5% interest rate (i.e., the cheaper loan) as the best deal. The “Total of Payments” was the main driver in most consumers’ decision because they recognized they would be paying less over the life of the loan. Many also used the “Finance Charges” and the associated “Fees” to make their decision. While APR was used by a few, it was a secondary factor. Consumers clearly noticed the additional fees that were charged in the original form, but did not necessarily recognize that was why the APR was higher. About half of the consumers noticed that the “Fee upon entering repayment” was omitted from the alternate version.

Other factors that impacted consumers’ decisions to a lesser degree were:

- ▶ Monthly payment amounts
- ▶ Total of Payments at the maximum interest rate
- ▶ Loan Amount

4.4. Final Disclosure





The Final Disclosure was the third and final disclosure shown to consumers. It was presented in testing as the disclosure that borrowers receive when they have accepted the terms and are closing on the loan. It is nearly identical to the Approval Disclosure except for three differences. The form included Right to Cancel information in a prominent box intended to immediately grab borrowers’ attention at the top of the first page. The Final Disclosure did not include information about Next Steps, because at the point of receiving this form, consumers would have completed the loan process. And lastly, the Federal Loan Alternatives information is not provided because consumers have made the decision to go with the private loan at this point in the process.

4.4.1. General Impressions of the Final Disclosure

Round 1. The Final Disclosure worked well for consumers as in previous rounds of testing. Nearly all believed they had the information needed to determine if they were getting a good loan deal. Most felt the disclosure was clear about how the loan would affect them in the future and the right information was highlighted.

Final Disclosure: Round 1	
Can you tell if the loan is a good deal or not by using the form?	8 of 9 said “yes”
Can you tell how taking loan will affect you/ your child in future?	7 of 9 said “yes”
Is enough emphasis put on the info that is relevant to you in making a decision to take private loan or not?	7 of 9 said “yes”





The Final Disclosure was “somewhat easy” to use in evaluating a private loan. Consumers believed the form was easy to follow and easy to read. The form’s language and terminology were “somewhat easy” to understand.

	Average Rating - among 10 participants -
How easy is form to use in evaluating private loan?	
What about the <u>organization</u> of the form? How easy is it to follow?	
How <u>easy</u> is it to read the information printed on this form?	
Is the <u>language/terminology</u> clear and understandable?	
Note: 4 Stars = “Very Easy”; 3 Stars = “Somewhat Easy”; 2 Stars = “Somewhat Hard”; 1 Star = “Very Hard”	

Round 2. The Final Disclosure continued to work well. Nearly all believed they had the information they needed to determine if they were getting a good loan deal. Most felt that the disclosure provided enough information to be able to tell how the loan would affect them in the future and all consumers felt the relevant information was emphasized.

Final Disclosure: Round 2	
Can you tell if the loan is a good deal or not by using the form?	10 of 11 said “yes”
Can you tell how taking loan will affect you/your child in future?	8 of 11 said “yes”
Is enough emphasis put on the info that is relevant to you in making a decision to take private loan or not?	11 of 11 said “yes”





The Final Disclosure was nearly “very easy” to use for all areas measured. The ease of evaluating the form and the language and terminology showed slight improvement from Round 1, while organization and readability remained the same.

	Average Rating - among 11 participants -
How easy is form to use in evaluating private loan?	
What about the <u>organization</u> of the form? How easy is it to follow?	
How <u>easy</u> is it to read the information printed on this form?	
Is the <u>language/terminology</u> clear and understandable?	
Note: 4 Stars = “Very Easy”; 3 Stars = “Somewhat Easy”; 2 Stars = “Somewhat Hard”; 1 Star = “Very Hard”	

Round 3. The Final Disclosure continued to perform well in Round 3 of testing. While a few consumers felt they needed more information to determine if the loan was a good deal, nearly all believed they had enough information to be able to tell how loan would affect them in the future, and all consumers felt the relevant information was adequately emphasized.

Final Disclosure: Round 3	
Can you tell if the loan is a good deal or not by using the form?	7 of 10 said “yes”
Can you tell how taking loan will affect you/your child in future?	9 of 10 said “yes”
Is enough emphasis put on the info that is relevant to you in making a decision to take private loan or not?	10 of 10 said “yes”

The Final Disclosure showed a slight improvement from Round 2 in readability, increasing to “very easy”. The other areas measured also performed well, each averaging nearly “very easy”.

	Average Rating - among 10 participants -
How easy is form to use in evaluating private loan?	
What about the <u>organization</u> of the form? How easy is it to follow?	
How <u>easy</u> is it to read the information printed on this form?	
Is the <u>language/terminology</u> clear and understandable?	
Note: 4 Stars = “Very Easy”; 3 Stars = “Somewhat Easy”; 2 Stars = “Somewhat Hard”; 1 Star = “Very Hard”	

4.4.2. Reactions to Detailed Elements

4.4.2.1. Right to Cancel Information Section of Final Disclosure

The Right to Cancel information provided at the top of the disclosure was intended to draw immediate attention to the borrower's right to cancel the loan before a specific date (three days after closing), as well as the procedure for cancelling.

Page 1 of 2		
RIGHT TO CANCEL	BORROWER:	CREDITOR:
You have a right to cancel this transaction, without penalty, by midnight on May 2, 2009. No funds will be disbursed to you or to your school until after this time. You may cancel by calling us at 800-555-5555.	Christopher Smith Jr. 1492 Columbus Way Plymouth, MA 02360	First ABC Bank 12345 1st St Anytown, CA 93120 (800) 555 - 5555

Round 1. Most noticed the information in the box immediately and recognized that the rest of the disclosure was identical to the Approval Disclosure. Some were slightly confused by the May 2nd date provided, but it was likely due to the hypothetical nature of the loan scenario.

The removal of the Federal Loan Alternatives information did not have any impact on the form's usefulness. No one mentioned it as missing information or asked to see it on the form again.

Round 2. In Round 2 of testing, no changes (with the exception of the cancel-by date) were made to the design or content of the Right to Cancel information since it was well received by consumers.

Page 1 of 2		
RIGHT TO CANCEL	BORROWER:	CREDITOR:
You have a right to cancel this transaction, without penalty, by midnight on June 4, 2009. No funds will be disbursed to you or to your school until after this time. You may cancel by calling us at 800-555-5555.	Christopher Smith Jr. 1492 Columbus Way Plymouth, MA 02360	First ABC Bank 12345 1st St Anytown, CA 93120 (800) 555 - 5555

As seen in Round 1, consumers were immediately drawn to the Right to Cancel box and were able to understand the information within it. Again, there was some ambiguity with the date given, but, as previously stated, was likely due to the hypothetical nature of the loan scenario.

The Federal Loan Alternatives information continued to be omitted from the Final Disclosure for Round 2 of testing. Most borrowers did not notice or mention the absence of this section. The few who commented on its absence all felt it was not needed on this disclosure.

Round 3. The Right to Cancel box was moved to the right side of the form, while the Borrower/Creditor information was moved to the left side. This edit was made so that this form could be mailed using windowed envelopes. The update was not based on information gathered during testing.

		Page 1 of 2
<p>BORROWER: Christopher Smith Jr. 1492 Columbus Way Plymouth, MA 02360</p>	<p>CREDITOR: First ABC Bank 12345 1st St Anytown, CA 93120 (800) 555 - 5555</p>	<p style="background-color: black; color: white; padding: 2px;">RIGHT TO CANCEL</p> <p>You have a right to cancel this transaction, without penalty, by midnight on August 4, 2009. No funds will be disbursed to you or to your school until after this time. You may cancel by calling us at 800-555-5555.</p>

The new placement of the Right to Cancel box did not seem to affect consumers. All were easily able to locate and understand the information. Additionally, consumers were pleased with the upfront placement of this information and liked that it gave them an exact date and time by which they needed to cancel. One consumer questioned whether the call center was open 24/7 since the deadline to cancel is midnight.

4.5. “No Maximum Rate” Reactions

During the testing exercises, consumers reviewed example loans that had a “maximum rate” (25%). However, in some states lenders are not required to have a “maximum rate” so it was important to gauge whether the disclosures could convey this information if modified.

Consumers were asked to review the three disclosures again with the following modifications:

- ▶ Updated “maximum rate” detail to state: “There is no maximum rate” for Rounds 1 and 2, and “This loan does not have a maximum rate” for Round 3.
- ▶ Updated the Estimated Repayment Schedule table to use 21% as the high example to show monthly payment information.

Round 1. In Round 1 of testing, most consumers felt the “No Maximum Rate” information needed more emphasis and suggested the following to increase its visibility within each disclosure:

- ▶ Bolding
- ▶ Increasing its font size
- ▶ Use all capital letters
- ▶ Put it in a box like the “Right to Cancel” information

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First ABC Bank
12345 1st St
Anytown, CA 93120
(800) 555 - 5555

Rates & Loan Terms

Current Starting Interest Rates between:

7.375% and **17.375%**

Your starting rate
Your specific rate will be determined based upon your creditworthiness and other factors.

Maximum Interest Rate
Your interest rate will vary with the market based on the LIBOR Rate (a publicly available interest rate we use to set the variable rate) and there is no maximum rate. The rate can change once a month and there is no limit on how much the rate can increase at one time.

Fees
Application Fee: \$15. Origination Fee: The fees that we charge to make this loan range from 0% to 6%. Late charge: 5% of the amount of the past due payment, or \$25, whichever is greater. Returned check charge: up to \$25.

Term of Loan:
amounts up to \$20,000: **20 years**
amounts more than \$20,000: **30 years**

Repayment Options & Sample Costs

In-School Repayment options (available while continuously enrolled in School)	Sample Loan amount	Sample Interest Rate (highest possible starting rate)	Sample Total Paid (over 20 years, including fees)
1. MAKE NO PAYMENTS Interest will be charged and added to your loan	\$10,000.00	17.375%	\$67,780.47
2. PAY THE INTEREST ONLY Defer payments on the principal amount	\$10,000.00	17.375%	\$46,332.56
3. MAKE FULL PAYMENTS Pay principal and interest	\$10,000.00	17.375%	\$38,044.68

See reference notes on next page for more information about this example.

Federal Loan Alternatives

Loan program	Current Interest Rates
PERKINS for Students	5% fixed
STAFFORD for Students	6% fixed Undergraduate subsidized 6.8% fixed Undergraduate unsubsidized & Graduate
PLUS for Parents	8.5% fixed Federal Family Education Loan 7.9% fixed Federal Direct Loan

You may qualify for Federal education loans. For additional information, contact your school's financial aid office or the Department of Education at: federalstudentaid.ed.gov

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BORROWER:
Christopher Smith Jr.
1492 Columbus Way
Plymouth, MA 02360

CREDITOR:
First ABC Bank
12345 1st St
Anytown, CA 93120

Loan Rates & Estimated Total Costs

Amount Financed	Interest Rate	Finance Charge	Total of Payments
\$10,000.00	7.375%	\$15,506.74	\$ 25,506.74

The amount of credit provided to you or on your behalf. Your current interest rate The estimated dollar amount the credit will cost you. The estimated amount you will have paid when you have made all payments.

YOUR RATE IS VARIABLE
A variable rate means that your actual rate could be higher or lower than the interest rate indicated on this form. There is no maximum rate. The variable rate is calculated using a publicly available index. For more information on this variable rate, see notes on next page.

Based on the current interest rate, your estimated annual percentage rate (APR), which is the cost of your loan as a yearly rate, is 7.056%.

ITEMIZATION OF AMOUNT FINANCED		OTHER FEES
Loan Amount	\$10,000.00	• Late Charge: 5% of the amount of the past due payment, or \$25, whichever is greater. Returned check charge: up to \$25.
Lender Fee to make the loan (Origination Fee)	\$0.00	
Total Amount Financed	\$10,000.00	

Estimated Repayment Schedule & Terms

PAYMENT SCHEDULE	MONTHLY PAYMENTS	
	at 7.375% the current rate of your loan	at 21% Your loan has no maximum rate. Your payments will be higher if the rate increases above 21%.
20 Year Loan Term		
Sep 1, 2009 - Feb 28, 2014 deferment period	No payment required (\$3,318.75 in interest will accrue during this time)	No payment required (interest will accrue during this time)
Mar 1, 2014 - Jan 31, 2034 239 monthly payments	\$106.28	\$345.75
Feb 1, 2034 1 monthly payment	\$105.82	\$353.14

◀ The estimated Total of Payments if your rate rises to 21% would be \$82,887.38. Your Total of Payments will be higher if rate increases above 21%.

The 21% example used on the Approval and Final Disclosures caused concern with some consumers who were unsure why the 21% rate was being used and thought it may be

misconstrued as the maximum rate. However, it is important to note this may be due to consumers' predisposition to an actual maximum rate on the disclosures reviewed prior to the No Maximum Rate review.

Round 2. Overall, consumers thought that the No Maximum Rate, while scary, was clearly indicated on the forms. Some noted that it was easier to find on the Application & Solicitation Disclosure than on the Approval or Final disclosures. Consumers explained this by citing the larger font size and greater amount of white space around the information on the Application & Solicitation Disclosure.

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First ABC Bank
12345 1st St
Anytown, CA 93120
(800) 555 - 5555

Loan Rates & Fees

STARTING INTEREST RATES **7.375% to 17.375%** ◀ Your specific starting interest rate will be determined based upon your creditworthiness and other factors (e.g. school-type or level, co-signer creditworthiness, etc).

The current range of initial interest rates for this loan

INTEREST RATE VARIABILITY The Interest Rate will vary and there is **no maximum rate** ◀ Your interest rate will vary with the market based upon the standard LIBOR Rate (a publicly available interest rate). The rate can change once a month and there is no limit on how much the rate can increase at one time.

How rates vary and applicable maximum rates

FEES Application Fee: \$15. Origination Fee: The fees that we charge to make this loan range from 0% to 6%. Repayment Fee: The fees we charge when you begin repayment range from 0% to 3.5%. Late Charge: 5% of the amount of the past due payment, or \$25, whichever is greater. Returned check charge: up to \$25.

Applicable fees associated with this loan

Example Loan Costs by In-School Repayment Option

Repayment Options (while continuously enrolled in school)	Loan amount	Interest Rate (highest possible starting rate)	Loan Term (the length of time you have to pay-off the loan)	Total Paid (including associated fees)
1. DEFER PAYMENTS Make no payments while enrolled in school. Interest will be charged and added to your loan	\$10,000.00	17.375%	20 years (starting <i>after</i> the deferment period)	\$80,791.75
2. PAY THE INTEREST ONLY Make interest payments but defer payments on the principal amount	\$10,000.00	17.375%	20 years (starting <i>after</i> the deferment period)	\$50,524.24
3. MAKE FULL PAYMENTS Pay both the principal and interest amounts	\$10,000.00	17.375%	20 years (starting from initial payment date)	\$39,374.08

About the Example
The repayment example above is based on the highest starting rate currently available and associated fees. It assumes that the borrower remains in school for 4 years and has a 6 month grace period before beginning repayment.

For loan amounts up to \$20,000, repayment will last 20 years, starting once the initial principal payment is made. For loan amounts more than \$20,000 repayment will last 30 years, starting once the initial principal payment is made.

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Borrower: Christopher Smith Jr.
1492 Columbus Way
Plymouth, MA 02360

Creditor: First ABC Bank
12345 1st St
Anytown, CA 93120

Loan Rates & Estimated Total Costs

Amount Financed	Interest Rate	Finance Charge	Total of Payments
\$10,000.00	7.375%	\$18,541.24	\$ 28,541.24

The amount of credit provided to you or on your behalf. Your current interest rate. The estimated dollar amount the credit will cost you. The estimated amount you will have paid when you have made all payments.

YOUR RATE IS VARIABLE
A variable rate means that your actual rate could be higher or lower than the interest rate indicated on this form. There is no maximum rate. The variable rate is calculated using a publicly available index. For more information on this variable rate, see notes on next page.

Based on the current interest rate, your estimated Annual Percentage Rate (APR), which is the cost of your loan as a yearly rate, is 8.23%.

ITEMIZATION OF AMOUNT FINANCED

Loan Amount	\$10,000.00
Less Lender Fee to make the loan (Origination Fee)	\$600.00
Total Amount Financed	\$10,000.00

OTHER FEES

- Late Charge: 5% of the amount of the past due payment, or \$25, whichever is greater. Returned check charge: up to \$25.
- Fee upon entering repayment: 3.5% of loan balance.

Estimated Repayment Schedule & Terms

20 YEAR LOAN TERM	MONTHLY PAYMENTS	
	at 7.375% the current rate of your loan	No Maximum Rate example at 21%
Sep 1, 2009 - Oct 31, 2013 deferment period	No payment required (\$3,799.67 in interest will accrue during this time)	No payment required (interest will accrue during this time)
Nov 1, 2013 - Sep 30, 2033 239 monthly payments	\$118.93	\$464.31 (your payments will be higher if the rate increases above 21%)
Oct 1, 2033 1 monthly payment	\$116.97	\$479.55 (your payments will be higher if the rate increases above 21%)

◀ Though your loan does not have a maximum interest rate, an example rate of 21% has been used for comparative purposes.

The estimated Total of Payments if your rate rises to 21% would be \$111,499.64. Your Total of Payments will be higher if rate increases above 21%.

The 21% rate shown in the Estimated Repayment Schedule and Terms on the Approval and Final disclosures was an issue for some consumers. They did not see any value in having this number represented, since it was completely arbitrary and not a true indicator of a rate with no maximum. Furthermore, they felt the 21% could be construed as the maximum rate and mislead consumers.

Round 3. Most consumers thought the No Maximum Rate information is clear, but some would like it to be bolded and larger in the box. Additionally, a few wanted a more detailed description of what it means to have no maximum rate on the loan. In support of this argument, one consumer took the no maximum rate to mean that his loan could never go to the maximum rate or highest monthly payments used in the 21% example. He saw the no maximum rate information as a positive for him as a borrower. Other suggestions on how to improve the visibility and clarity of the no maximum rate information were:

- ▶ Move information to go directly under “Your interest rate during the life of the loan”
- ▶ Put it in a box like the “Right to Cancel” information
- ▶ Move information to the left on the Application & Solicitation Disclosure to appear in the white space

Page 1 of 2

First ABC Bank
12345 1st St
Anytown, CA 93120
(800) 555 - 5555

Loan Interest Rates & Fees

Your starting interest rate will be between

7.375% - **17.375%**

After the starting rate is set, your rate will then vary with the market

Your Starting Interest Rate (upon approval)
Your specific rate from within the range will be determined after you apply and will be based upon your credit and other factors (e.g. school type, co-signer credit, etc.). If approved, we will notify you of the rate you qualify for.

Your interest rate during the life of the loan
After your initial rate is set, it will then **vary with the market** based upon the LIBOR Rate (as published in the Wall Street Journal). The rate can change once a month and there is no limit on how much the rate can increase at one time.

This loan does not have a maximum rate.

Fees
Application Fee: \$15. **Origination Fee:** The fees that we charge to make this loan range from 0% to 6% of total loan amount. **Loan Guarantee Fee:** 0% to 6% of total loan amount. **Repayment Fee:** The fees we charge when you begin repayment range from 0% to 3.5% of the total loan amount. **Late Charge:** 5% of the amount of the past due payment, or \$25, whichever is greater. **Returned check charge:** up to \$25.

Example Loan Costs

The total amount you will pay for this loan will vary depending upon when you start to repay it. This sample provides estimates based upon three (3) different repayment options available to you while enrolled in school.

Repayment Option (while enrolled in school)	Loan amount	Interest Rate (highest possible starting rate)	Loan Term (the length of time you have to pay-off the loan)	Total Paid over 20 years (includes associated fees)
1. DEFER PAYMENTS Make no payments while enrolled in school. Interest will be charged and added to your loan.	\$10,000.00	17.375%	20 years starting after the deferment period	\$80,791.75
2. PAY THE INTEREST ONLY Make interest payments but defer payments on the principal amount while enrolled in school.	\$10,000.00	17.375%	20 years starting after the deferment period	\$50,524.24
3. MAKE FULL PAYMENTS Pay both the principal and interest amounts while enrolled in school.	\$10,000.00	17.375%	20 years starting after your first payment	\$39,374.08

About this example
The repayment example assumes that the borrower remains in school for 4 years and has a 6 month grace period before beginning repayment. It is based on the **highest starting rate currently available** and associated fees. For loan amounts **up to \$20,000**, repayment will last 20 years, starting once the initial principal payment is made. For loan amounts **more than \$20,000** repayment will last 30 years, starting once the initial principal payment is made.

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BORROWER:
Christopher Smith Jr.
1492 Columbus Way
Plymouth, MA 02360

CREDITOR:
First ABC Bank
12345 1st St
Anytown, CA 93120

Loan Rates & Estimated Total Costs

Total Loan Amount	Interest Rate	Finance Charge	Total of Payments
\$10,600.00	7.375%	\$18,541.24	\$ 28,541.24

The total amount you are borrowing. Your current interest rate. The estimated dollar amount the credit will cost you. The estimated amount you will have paid when you have made all payments.

ITEMIZATION OF AMOUNT FINANCED

Amount paid to you	\$0.00
Amount paid to others on your Behalf: • Pennsylvania State University	+ \$10,000
Total Amount Financed	= \$10,000
Initial finance charges (total) • Origination Fee (\$300) • Loan Guarantee Fee (\$300)	- \$600
Total Loan Amount	= \$10,600

ABOUT YOUR INTEREST RATE

- Your rate is variable. This means that your actual rate varies with the market and could be lower or higher than the rate indicated on this form. The variable rate is calculated using a publicly available index. For more information on this rate, see reference notes.
- Your loan does not have a maximum rate.
- Your Annual Percentage Rate (APR) is 8.23%. The APR is typically different than the Interest Rate since it considers fees and then reflects the cost of your loan as a yearly rate. For more information about the APR, see reference notes.

FEES

- Late Charge: 5% of the amount of the past due payment, or \$25, whichever is greater.
- Returned check charge: up to \$25.
- Fee upon entering repayment: 3.5% of loan balance.

Estimated Repayment Schedule & Terms

20 YEAR LOAN TERM	MONTHLY PAYMENTS	
	at 7.375% the current interest rate of your loan	No Maximum Rate example at 21%
Sep 1, 2009 - Oct 31, 2013 deferment period	No payment required (\$3,799.67 in interest will accrue during this time)	No payment required (interest will accrue during this time)
Nov 1, 2013 - Sep 30, 2033 239 monthly payments	\$118.93	\$464.31 (your payments will be higher if the rate increases above 21%)
Oct 1, 2033 1 monthly payment	\$116.97	\$479.55 (your payments will be higher if the rate increases above 21%)

Though your loan does not have a maximum interest rate, an example rate of 21% has been used for comparative purposes.

The estimated Total of Payments if your rate rises to 21% would be \$111,449.64. Your Total of Payments will be higher if rate increases above 21%.

As for the 21% example, some thought it worked while others wanted to see a different rate used as an example (e.g., a high rate like 35% or the maximum rate used by most states that do enforce a limit). While these consumers were not completely in favor of the rate chosen, they did think it was important to have the example so consumers could get an idea of how high their monthly payments and total of payments might ultimately be.

A couple of consumers felt that the 21% was somewhat deceptive, because consumers may mistake it for their maximum rate when in actuality a maximum rate does not exist.

5. Appendix

5.1. Private Education Loan Disclosures: Model Form Designs for Round 1 of Testing

5.1.1. Model Form Designs

First ABC Bank
 12345 1st St
 Anytown, CA 93120
 (800) 555 - 5555

Rates & Loan Terms

Current Starting Interest Rates between:

7.375% and **17.375%**

Your starting rate

Your specific rate will be determined based upon your creditworthiness and other factors.

Maximum Interest Rate

Your interest rate **will vary with the market** based on the LIBOR Rate (a publicly available interest rate we use to set the variable rate) but **will never go above 25%**. The rate can change once a month and there is no limit on how much the rate can increase at one time.

Term of Loan:

amounts up to \$20,000: **20 years**
 amounts more than \$20,000: **30 years**

Fees

Application Fee: \$15. **Origination Fee:** The fees that we charge to make this loan range from 0% to 8%. **Late Charge:** 5% of the amount of the past due payment, or \$25, whichever is greater. **Returned check charge:** up to \$25.

Repayment Options & Sample Costs

In-School Repayment options (available while continuously enrolled in School)	Sample Loan amount	Sample Interest Rate (highest possible starting rate)	Sample Total Paid (over 20 years, including fees)
1. MAKE NO PAYMENTS Interest will be charged and added to your loan	\$10,000.00	17.375%	\$67,780.47
2. PAY THE INTEREST ONLY Defer payments on the principal amount	\$10,000.00	17.375%	\$46,332.56
3. MAKE FULL PAYMENTS Pay principal and interest	\$10,000.00	17.375%	\$38,044.68

See reference notes on next page for more information about this example.

Federal Loan Alternatives

Loan program	Current Interest Rates	
PERKINS for Students	5% fixed	
STAFFORD for Students	6% fixed	Undergraduate subsidized
	6.8% fixed	Undergraduate unsubsidized & Graduate
PLUS for Parents	8.5% fixed	Federal Family Education Loan
	7.9% fixed	Federal Direct Loan

You may qualify for Federal education loans.

For additional information, **contact your school's financial aid office or the Department of Education at:**
federalstudentaid.ed.gov

Next Steps

1. Find Out More About Other Loan Options.

Some schools have school-specific student loan benefits and terms not detailed on this form. Contact your school's financial aid office or visit the Department of Education's web site at federalstudentaid.ed.gov for more information about other loans.

2. To Apply for this Loan, Complete the Application and the School Certification Form.

You may get the certification form from your school's financial aid office. If you are approved for this loan, the loan terms will be available for 30 days (terms will not change during this period, except the variable interest rate may change based on adjustments to the index).

REFERENCE NOTES

Variable Interest Rate

- This loan has a variable interest rate, that is based on a publicly available index, the London Interbank Offered Rate (LIBOR). Your rate will be calculated each month by adding a margin between 3% and 14% to the LIBOR.

Eligibility Criteria

Borrower

- Must be enrolled at an eligible school at least half-time
- Must be 18 years or older at the time of loan application.

Co-signers

- A co-signer is not required, but rates are typically higher without a co-signer

- Must be 18 years or older at the time of loan application.

More information about loan eligibility is available in your loan application and promissory note.

About the Repayment Example

The repayment example above is based on the highest starting rate currently available and associated fees. It assumes that the borrower remains in school for 4 years and has a 6 month grace period before beginning repayment. Repayment will last 20 years.

BORROWER:
Christopher Smith Jr.
1492 Columbus Way
Plymouth, MA 02360

CREDITOR:
First ABC Bank
12345 1st St
Anytown, CA 93120

Loan Rates & Estimated Total Costs

Amount Financed	Interest Rate	Finance Charge	Total of Payments
\$10,000.00	7.375%	\$15,506.74	\$ 25,506.74
The amount of credit provided to you or on your behalf.	Your current interest rate	The estimated dollar amount the credit will cost you.	The estimated amount you will have paid when you have made all payments.

YOUR RATE IS VARIABLE

A variable rate means that your actual rate could be higher or lower than the interest rate indicated on this form, but will **never exceed a maximum of 25%**. The variable rate is calculated using a publicly available index. For more information on this variable rate, see notes on next page.

Based on the current interest rate, your **estimated annual percentage rate (APR)**, which is the cost of your loan as a yearly rate, is **7.059%**.

ITEMIZATION OF AMOUNT FINANCED

Loan Amount	\$10,000.00
Lender Fee to make the loan (Origination Fee)	\$0.00
Total Amount Financed	\$10,000.00

OTHER FEES

- **Late Charge:** 5% of the amount of the past due payment, or \$25, whichever is greater.
- **Returned check charge:** up to \$25.

Estimated Repayment Schedule & Terms

PAYMENT SCHEDULE	MONTHLY PAYMENTS	
	at 7.375% the current rate of your loan	at 25% the maximum rate possible with your loan
20 Year Loan Term		
Sep 1, 2009 - Feb 28, 2014 deferment period	No payment required (\$3,318.75 in interest will accrue during this time)	No payment required (interest will accrue during this time)
Mar 1, 2014 - Feb 28, 2034 239 monthly payments	\$106.28	\$445.87
Mar 1, 2034 1 monthly payment	\$105.82	\$452.76

← The estimated **Total of Payments** at the Maximum Rate of Interest would be **\$107,015.69**

Federal Loan Alternatives

Loan program	Current Interest Rates	
PERKINS for Students	5% fixed	
STAFFORD for Students	6% fixed	Undergraduate subsidized
	6.8% fixed	Undergraduate unsubsidized & Graduate
PLUS for Parents	8.5% fixed	Federal Family Education Loan
	7.9% fixed	Federal Direct Loan

You may qualify for Federal education loans.

For additional information, contact your school's financial aid office or the Department of Education at: federalstudentaid.ed.gov

Next Steps & Terms of Acceptance

This offer is good until:

January 21, 2009

If you have not accepted by January 21, 2009 we may change the terms of this offer.

1. Find Out More About Other Loan Options.

Some schools have school-specific student loan benefits and terms not detailed on this form. Contact your school's financial aid office for more information.

2. The Terms of this Loan Offer Are Good for 30 days.

You have 30 days from the approval date to accept this offer. The terms of this offer will not change, except that the interest rate may vary with the market rate listed above. To accept the terms, contact us at:

First ABC Bank
12345 1st St
Anytown, CA 93120
(800) 555 - 5555

REFERENCE NOTES

Variable Interest Rate:

- Your loan has a variable interest rate, that is based on a publicly available index, the London Interbank Offered Rate (LIBOR), which is currently 4.375%. Your rate is calculated each month by adding a margin of 3% to the LIBOR. The interest rate may be higher or lower than your Annual Percentage Rate (APR) because the APR accounts for the Interest Rate and certain fees you must pay to obtain this loan, and whether you defer (postpone) payments while in school.
- The rate will not increase more than once a month, but there is no limit on the amount that the rate could increase at one time. Your rate will never exceed 25%.
- Any increase will take the form of higher monthly payments.

Bankruptcy Limitations

- If you file for bankruptcy you may still be required to pay back this loan.

Repayment Options:

- Although you elected to defer (postpone) payments, you can still make payments during this time. You can also choose to change your deferment choice to: Pay Interest Only or Make Full Payments.

Prepayments:

- If you pay off early, you will not have to pay a penalty. You will not be entitled to a refund of part of the finance charge.

See your contract documents for any additional information about non-payment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

RIGHT TO CANCEL

You have a right to cancel this transaction, without penalty, by midnight on January 20, 2009. No funds will be disbursed to you or to your school until after this time. You may cancel by calling us at 800-555-5555.

BORROWER:

Christopher Smith Jr.
1492 Columbus Way
Plymouth, MA 02360

CREDITOR:

First ABC Bank
12345 1st St
Anytown, CA 93120
(800) 555 - 5555

Loan Rates & Estimated Total Costs

Amount Financed

\$10,000.00

The amount of credit provided to you or on your behalf.

Interest Rate

7.375%

Your current interest rate

Finance Charge

\$15,506.74

The estimated dollar amount the credit will cost you.

Total of Payments

\$ 25,506.74

The estimated amount you will have paid when you have made all payments.

YOUR RATE IS VARIABLE

A variable rate means that your actual rate could be higher or lower than the interest rate indicated on this form. There is **no maximum rate**. The variable rate is calculated using a publicly available index. For more information on this variable rate, see notes on next page.

Based on the current interest rate, your **estimated annual percentage rate (APR)**, which is the cost of your loan as a yearly rate, is **7.059%**.

ITEMIZATION OF AMOUNT FINANCED

Loan Amount	\$10,000.00
Lender Fee to make the loan (Origination Fee)	\$0.00
Total Amount Financed	\$10,000.00

OTHER FEES

- **Late Charge:** 5% of the amount of the past due payment, or \$25, whichever is greater.
- **Returned check charge:** up to \$25.

Estimated Repayment Schedule & Terms

PAYMENT SCHEDULE	MONTHLY PAYMENTS	
	at 7.375% the current rate of your loan	at 21% Your loan has no maximum rate. Your payments will be higher if the rate increases above 21%.
20 Year Loan Term		
Sep 1, 2009 - Feb 28, 2014 deferment period	No payment required (\$3,318.75 in interest will accrue during this time)	No payment required (interest will accrue during this time)
Mar 1, 2014 - Feb 28, 2034 239 monthly payments	\$106.28	\$345.75
Mar 1, 2034 1 monthly payment	\$105.82	\$353.14

◀ The estimated **Total of Payments** if your rate rises to 21% would be **\$82,987.39**. Your Total of Payments will be higher if rate increases above 21%.

REFERENCE NOTES**Variable Interest Rate:**

- Your loan has a variable interest rate, that is based on a publicly available index, the London Interbank Offered Rate (LIBOR), which is currently 4.375%. Your rate is calculated each month by adding a margin of 3% to the LIBOR. The interest rate may be higher or lower than your Annual Percentage Rate (APR) because the APR accounts for the Interest Rate and certain fees you must pay to obtain this loan, and whether you defer (postpone) payments while in school.
- The rate will not increase more than once a month, but there is no limit on the amount that the rate could increase at one time. Your loan has no maximum rate.
- Any increase will take the form of higher monthly payments.

Bankruptcy Limitations

- If you file for bankruptcy you may still be required to pay back this loan.

Repayment Options:

- Although you elected to defer (postpone) payments, you can still make payments during this time. You can also choose to change your deferment choice to: Pay Interest Only or Make Full Payments.

Prepayments:

- If you pay off early, you will not have to pay a penalty. You will not be entitled to a refund of part of the finance charge.

See your contract documents for any additional information about non-payment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

5.1.2. Comparison Shopping Alternatives for Application & Solicitation Disclosure

First ABC Bank
 12345 1st St
 Anytown, CA 93120
 (800) 555 - 5555

Rates & Loan Terms

Current Starting Interest Rates between:

5.5% and **15.5%**

Term of Loan:

amounts up to \$20,000: **20 years**
 amounts more than \$20,000: **30 years**

Your starting rate

Your specific rate will be determined based upon your creditworthiness and other factors.

Maximum Interest Rate

Your interest rate **will vary with the market** based on the LIBOR Rate (a publicly available interest rate we use to set the variable rate) but **will never go above 25%**. The rate can change once a month and there is no limit on how much the rate can increase at one time.

Fees

Application Fee: \$15. **Origination Fee:** The fees that we charge to make this loan range from 0% to 8%. **Late Charge:** 5% of the amount of the past due payment, or \$25, whichever is greater. **Returned check charge:** up to \$25.

Repayment Options & Sample Costs

In-School Repayment options (available while continuously enrolled in School)	Sample Loan amount	Sample Interest Rate (highest possible starting rate)	Sample Total Paid (over 20 years, including fees)
1. MAKE NO PAYMENTS Interest will be charged and added to your loan	\$10,000.00	15.5%	\$67,196.99
2. PAY THE INTEREST ONLY Defer payments on the principal amount	\$10,000.00	15.5%	\$46,582.36
3. MAKE FULL PAYMENTS Pay principal and interest	\$10,000.00	15.5%	\$39,607.35

See reference notes on next page for more information about this example.

Federal Loan Alternatives

Loan program	Current Interest Rates	
PERKINS for Students	5% fixed	
STAFFORD for Students	6% fixed	Undergraduate subsidized
	6.8% fixed	Undergraduate unsubsidized & Graduate
PLUS for Parents	8.5% fixed	Federal Family Education Loan
	7.9% fixed	Federal Direct Loan

You may qualify for Federal education loans.

For additional information, **contact your school's financial aid office or the Department of Education at:** federalstudentaid.ed.gov

Next Steps

1. Find Out More About Other Loan Options.

Some schools have school-specific student loan benefits and terms not detailed on this form. Contact your school's financial aid office or visit the Department of Education's web site at federalstudentaid.ed.gov for more information about other loans.

2. To Apply for this Loan, Complete the Application and the School Certification Form.

You may get the certification form from your school's financial aid office. If you are approved for this loan, the loan terms will be available for 30 days (terms will not change during this period, except the variable interest rate may change based on adjustments to the index).

REFERENCE NOTES

Variable Interest Rate

- This loan has a variable interest rate, that is based on a publicly available index, the London Interbank Offered Rate (LIBOR). Your rate will be calculated each month by adding a margin between 3% and 14% to the LIBOR.

Eligibility Criteria

Borrower

- Must be enrolled at an eligible school at least half-time
- Must be 18 years or older at the time of loan application.

Co-signers

- A co-signer is not required, but rates are typically higher without a co-signer
- Must be 18 years or older at the time of loan application.

More information about loan eligibility is available in your loan application and promissory note.

About the Repayment Example

The repayment example above is based on the highest starting rate currently available and associated fees. It assumes that the borrower remains in school for 4 years and has a 6 month grace period before beginning repayment. Repayment will last 20 years.

First ABC Bank
 12345 1st St
 Anytown, CA 93120
 (800) 555 - 5555

Rates & Loan Terms

Current Starting Interest Rates between:

6.45% and **9.25%**

Term of Loan:

amounts up to \$20,000: **25 years**
 amounts more than \$20,000: **30 years**

Your starting rate

Your specific rate will be determined based upon your creditworthiness and other factors.

Maximum Interest Rate

Your interest rate **will vary with the market** based on the LIBOR Rate (a publicly available interest rate we use to set the variable rate) but **will never go above 25%**. The rate can change once a month and there is no limit on how much the rate can increase at one time.

Fees

Application Fee: \$15. **Origination Fee:** The fees that we charge to make this loan range from 0% to 6%. **Late Charge:** 5% of the amount of the past due payment, or \$25, whichever is greater. **Returned check charge:** up to \$25.

Repayment Options & Sample Costs

In-School Repayment options (available while continuously enrolled in School)	Sample Loan amount	Sample Interest Rate (highest possible starting rate)	Sample Total Paid (over 25 years, including fees)
1. MAKE NO PAYMENTS Interest will be charged and added to your loan	\$10,000.00	9.25%	\$36,381.44
2. PAY THE INTEREST ONLY Defer payments on the principal amount	\$10,000.00	9.25%	\$29,852.51
3. MAKE FULL PAYMENTS Pay principal and interest	\$10,000.00	9.25%	\$25,690.01

See reference notes on next page for more information about this example.

Federal Loan Alternatives

Loan program	Current Interest Rates	
PERKINS for Students	5% fixed	
STAFFORD for Students	6% fixed	Undergraduate subsidized
	6.8% fixed	Undergraduate unsubsidized & Graduate
PLUS for Parents	8.5% fixed	Federal Family Education Loan
	7.9% fixed	Federal Direct Loan

You may qualify for Federal education loans.

For additional information, **contact your school's financial aid office or the Department of Education at:**
federalstudentaid.ed.gov

Next Steps

1. Find Out More About Other Loan Options.

Some schools have school-specific student loan benefits and terms not detailed on this form. Contact your school's financial aid office or visit the Department of Education's web site at federalstudentaid.ed.gov for more information about other loans.

2. To Apply for this Loan, Complete the Application and the School Certification Form.

You may get the certification form from your school's financial aid office. If you are approved for this loan, the loan terms will be available for 30 days (terms will not change during this period, except the variable interest rate may change based on adjustments to the index).

REFERENCE NOTES

Variable Interest Rate

- This loan has a variable interest rate, that is based on a publicly available index, the London Interbank Offered Rate (LIBOR). Your rate will be calculated each month by adding a margin between 3% and 14% to the LIBOR.

Eligibility Criteria

Borrower

- Must be enrolled at an eligible school at least half-time
- Must be 18 years or older at the time of loan application.

Co-signers

- A co-signer is not required, but rates are typically higher without a co-signer
- Must be 18 years or older at the time of loan application.

More information about loan eligibility is available in your loan application and promissory note.

About the Repayment Example

The repayment example above is based on the highest starting rate currently available and associated fees. It assumes that the borrower remains in school for 4 years and has a 6 month grace period before beginning repayment. Repayment will last 20 years.

5.1.3 No Maximum Rate Versions

First ABC Bank
 12345 1st St
 Anytown, CA 93120
 (800) 555 - 5555

Rates & Loan Terms

Current Starting Interest Rates between:

7.375% and **17.375%**

Term of Loan:

amounts up to \$20,000: **20 years**
 amounts more than \$20,000: **30 years**

Your starting rate

Your specific rate will be determined based upon your creditworthiness and other factors.

Maximum Interest Rate

Your interest rate **will vary with the market** based on the LIBOR Rate (a publicly available interest rate we use to set the variable rate) and **there is no maximum rate**. The rate can change once a month and there is no limit on how much the rate can increase at one time.

Fees

Application Fee: \$15. **Origination Fee:** The fees that we charge to make this loan range from 0% to 6%. **Late Charge:** 5% of the amount of the past due payment, or \$25, whichever is greater. **Returned check charge:** up to \$25.

Repayment Options & Sample Costs

In-School Repayment options (available while continuously enrolled in School)	Sample Loan amount	Sample Interest Rate (highest possible starting rate)	Sample Total Paid (over 20 years, including fees)
1. MAKE NO PAYMENTS Interest will be charged and added to your loan	\$10,000.00	17.375%	\$67,780.47
2. PAY THE INTEREST ONLY Defer payments on the principal amount	\$10,000.00	17.375%	\$46,332.56
3. MAKE FULL PAYMENTS Pay principal and interest	\$10,000.00	17.375%	\$38,044.68

See reference notes on next page for more information about this example.

Federal Loan Alternatives

Loan program	Current Interest Rates
PERKINS for Students	5% fixed
STAFFORD for Students	6% fixed Undergraduate subsidized
	6.8% fixed Undergraduate unsubsidized & Graduate
PLUS for Parents	8.5% fixed Federal Family Education Loan
	7.9% fixed Federal Direct Loan

You may qualify for Federal education loans.

For additional information, **contact your school's financial aid office or the Department of Education at:**
federalstudentaid.ed.gov

Next Steps

1. Find Out More About Other Loan Options.

Some schools have school-specific student loan benefits and terms not detailed on this form. Contact your school's financial aid office or visit the Department of Education's web site at federalstudentaid.ed.gov for more information about other loans.

2. To Apply for this Loan, Complete the Application and the School Certification Form.

You may get the certification form from your school's financial aid office. If you are approved for this loan, the loan terms will be available for 30 days (terms will not change during this period, except the variable interest rate may change based on adjustments to the index).

REFERENCE NOTES

Variable Interest Rate

- This loan has a variable interest rate, that is based on a publicly available index, the London Interbank Offered Rate (LIBOR). Your rate will be calculated each month by adding a margin between 3% and 14% to the LIBOR.

Eligibility Criteria

Borrower

- Must be enrolled at an eligible school at least half-time
- Must be 18 years or older at the time of loan application.

Co-signers

- A co-signer is not required, but rates are typically higher without a co-signer
- Must be 18 years or older at the time of loan application.

More information about loan eligibility is available in your loan application and promissory note.

About the Repayment Example

The repayment example above is based on the highest starting rate currently available and associated fees. It assumes that the borrower remains in school for 4 years and has a 6 month grace period before beginning repayment. Repayment will last 20 years.

BORROWER:

Christopher Smith Jr.
1492 Columbus Way
Plymouth, MA 02360

CREDITOR:

First ABC Bank
12345 1st St
Anytown, CA 93120

Loan Rates & Estimated Total Costs

Amount Financed

\$10,000.00

The amount of credit provided to you or on your behalf.

Interest Rate

7.375%

Your current interest rate

Finance Charge

\$15,506.74

The estimated dollar amount the credit will cost you.

Total of Payments

\$ 25,506.74

The estimated amount you will have paid when you have made all payments.

YOUR RATE IS VARIABLE

A variable rate means that your actual rate could be higher or lower than the interest rate indicated on this form. There is **no maximum rate**. The variable rate is calculated using a publicly available index. For more information on this variable rate, see notes on next page.

Based on the current interest rate, your **estimated annual percentage rate (APR)**, which is the cost of your loan as a yearly rate, is **7.059%**.

ITEMIZATION OF AMOUNT FINANCED

Loan Amount	\$10,000.00
Lender Fee to make the loan (Origination Fee)	\$0.00
Total Amount Financed	\$10,000.00

OTHER FEES

- **Late Charge:** 5% of the amount of the past due payment, or \$25, whichever is greater.
- **Returned check charge:** up to \$25.

Estimated Repayment Schedule & Terms

PAYMENT SCHEDULE	MONTHLY PAYMENTS	
	at 7.375% the current rate of your loan	at 21% Your loan has no maximum rate. Your payments will be higher if the rate increases above 21%.
20 Year Loan Term		
Sep 1, 2009 - Feb 28, 2014 deferment period	No payment required (\$3,318.75 in interest will accrue during this time)	No payment required (interest will accrue during this time)
Mar 1, 2014 - Jan 31, 2034 239 monthly payments	\$106.28	\$345.75
Feb 1, 2034 1 monthly payment	\$105.82	\$353.14

◀ The estimated **Total of Payments** if your rate rises to 21% would be **\$82,987.39**. Your Total of Payments will be higher if rate increases above 21%.

Federal Loan Alternatives

Loan program	Current Interest Rates	
PERKINS for Students	5% fixed	
STAFFORD for Students	6% fixed	Undergraduate subsidized
	6.8% fixed	Undergraduate unsubsidized & Graduate
PLUS for Parents	8.5% fixed	Federal Family Education Loan
	7.9% fixed	Federal Direct Loan

You may qualify for Federal education loans.

For additional information, **contact your school's financial aid office or the Department of Education at:**
federalstudentaid.ed.gov

Next Steps & Terms of Acceptance

This offer is good until:

May 2, 2009

If you have not accepted by May 2, 2009 we may change the terms of this offer.

- 1. Find Out More About Other Loan Options.**
Some schools have school-specific student loan benefits and terms not detailed on this form. Contact your school's financial aid office for more information.
- 2. The Terms of this Loan Offer Are Good for 30 days.**
You have 30 days from the approval date to accept this offer. The terms of this offer will not change, except that the interest rate may vary with the market rate listed above. To accept the terms, contact us at:

First ABC Bank
 12345 1st St
 Anytown, CA 93120
 (800) 555 - 5555

REFERENCE NOTES

Variable Interest Rate:

- Your loan has a variable interest rate, that is based on a publicly available index, the London Interbank Offered Rate (LIBOR), which is currently 4.375%. Your rate is calculated each month by adding a margin of 3% to the LIBOR. The interest rate may be higher or lower than your Annual Percentage Rate (APR) because the APR accounts for the Interest Rate and certain fees you must pay to obtain this loan, and whether you defer (postpone) payments while in school.
- The rate will not increase more than once a month, but there is no limit on the amount that the rate could increase at one time. Your loan has no maximum rate.
- Any increase will take the form of higher monthly payments.

Bankruptcy Limitations

- If you file for bankruptcy you may still be required to pay back this loan.

Repayment Options:

- Although you elected to defer (postpone) payments, you can still make payments during this time. You can also choose to change your deferment choice to: Pay Interest Only or Make Full Payments.

Prepayments:

- If you pay off early, you will not have to pay a penalty. You will not be entitled to a refund of part of the finance charge.

See your contract documents for any additional information about non-payment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

RIGHT TO CANCEL

You have a right to cancel this transaction, without penalty, by midnight on May 2, 2009. No funds will be disbursed to you or to your school until after this time. You may cancel by calling us at 800-555-5555.

BORROWER:
Christopher Smith Jr.
1492 Columbus Way
Plymouth, MA 02360

CREDITOR:
First ABC Bank
12345 1st St
Anytown, CA 93120
(800) 555 - 5555

Loan Rates & Estimated Total Costs

Amount Financed

\$10,000.00

The amount of credit provided to you or on your behalf.

Interest Rate

7.375%

Your current interest rate

Finance Charge

\$15,506.74

The estimated dollar amount the credit will cost you.

Total of Payments

\$ 25,506.74

The estimated amount you will have paid when you have made all payments.

YOUR RATE IS VARIABLE

A variable rate means that your actual rate could be higher or lower than the interest rate indicated on this form. There is **no maximum rate**. The variable rate is calculated using a publicly available index. For more information on this variable rate, see notes on next page.

Based on the current interest rate, your **estimated annual percentage rate (APR)**, which is the cost of your loan as a yearly rate, is **7.059%**.

ITEMIZATION OF AMOUNT FINANCED

Loan Amount	\$10,000.00
Lender Fee to make the loan (Origination Fee)	\$0.00
Total Amount Financed	\$10,000.00

OTHER FEES

- **Late Charge:** 5% of the amount of the past due payment, or \$25, whichever is greater.
- **Returned check charge:** up to \$25.

Estimated Repayment Schedule & Terms

PAYMENT SCHEDULE	MONTHLY PAYMENTS	
	at 7.375% the current rate of your loan	at 21% Your loan has no maximum rate. Your payments will be higher if the rate increases above 21%.
20 Year Loan Term		
Sep 1, 2009 - Feb 28, 2014 deferment period	No payment required (\$3,318.75 in interest will accrue during this time)	No payment required (interest will accrue during this time)
Mar 1, 2014 - Jan 31, 2034 239 monthly payments	\$106.28	\$345.75
Feb 1, 2034 1 monthly payment	\$105.82	\$353.14

◀ The estimated **Total of Payments** if your rate rises to 21% would be **\$82,987.39**. Your Total of Payments will be higher if rate increases above 21%.

REFERENCE NOTES**Variable Interest Rate:**

- Your loan has a variable interest rate, that is based on a publicly available index, the London Interbank Offered Rate (LIBOR), which is currently 4.375%. Your rate is calculated each month by adding a margin of 3% to the LIBOR. The interest rate may be higher or lower than your Annual Percentage Rate (APR) because the APR accounts for the Interest Rate and certain fees you must pay to obtain this loan, and whether you defer (postpone) payments while in school.
- The rate will not increase more than once a month, but there is no limit on the amount that the rate could increase at one time. Your loan has no maximum rate.
- Any increase will take the form of higher monthly payments.

Bankruptcy Limitations

- If you file for bankruptcy you may still be required to pay back this loan.

Repayment Options:

- Although you elected to defer (postpone) payments, you can still make payments during this time. You can also choose to change your deferment choice to: Pay Interest Only or Make Full Payments.

Prepayments:

- If you pay off early, you will not have to pay a penalty. You will not be entitled to a refund of part of the finance charge.

See your contract documents for any additional information about non-payment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

5.2. Private Education Loan Disclosures: Model Form Designs for Round 2 of Testing

5.2.1. Model Form Designs

First ABC Bank
 12345 1st St
 Anytown, CA 93120
 (800) 555 - 5555

Loan Rates & Fees

STARTING INTEREST RATES

The current range of initial interest rates for this loan

7.375% to **17.375%**

◀ Your specific starting interest rate will be determined based upon your creditworthiness and other factors (e.g. school-type or level, co-signer creditworthiness, etc).

INTEREST RATE VARIABILITY

How rates vary and applicable maximum rates

The Interest Rate will vary but will never exceed **25%**

◀ Your interest rate will vary with the market based upon the standard LIBOR Rate (a publicly available interest rate). The rate can change once a month and there is no limit on how much the rate can increase at one time.

FEES

Applicable fees associated with this loan

Application Fee: \$15. **Origination Fee:** The fees that we charge to make this loan range from 0% to 6%. **Re-payment Fee:** The fees we charge when you begin repayment range from 0% to 3.5%. **Late Charge:** 5% of the amount of the past due payment, or \$25, whichever is greater. **Returned check charge:** up to \$25.

Example Loan Costs by In-School Repayment Option

Repayment Options (while continuously enrolled in school)	Loan amount	Interest Rate (highest possible starting rate)	Loan Term (the length of time you have to pay-off the loan)	Total Paid (including associated fees)
1. DEFER PAYMENTS Make no payments while enrolled in school. Interest will be charged and added to your loan	\$10,000.00	17.375%	20 years (starting <u>after</u> the deferment period)	\$80,791.75
2. PAY THE INTEREST ONLY Make interest payments but defer payments on the principal amount	\$10,000.00	17.375%	20 years (starting <u>after</u> the deferment period)	\$50,524.24
3. MAKE FULL PAYMENTS Pay both the principal and interest amounts	\$10,000.00	17.375%	20 years (starting from initial payment date)	\$39,374.08

About the Example

The repayment example above is based on the **highest starting rate currently available** and associated fees. It assumes that the borrower remains in school for 4 years and has a 6 month grace period before beginning repayment.

For loan amounts **up to \$20,000**, repayment will last 20 years, starting once the initial principal payment is made. For loan amounts **more than \$20,000** repayment will last 30 years, starting once the initial principal payment is made.

Federal Loan Alternatives

Loan program	Current Interest Rates	
PERKINS for Students	5% fixed	
STAFFORD for Students	6% fixed	Undergraduate subsidized
	6.8% fixed	Undergraduate unsubsidized & Graduate
PLUS for Parents and Graduate / Professional Students	8.5% fixed	Federal Family Education Loan
	7.9% fixed	Federal Direct Loan

You may qualify for Federal education loans.

For additional information, contact your school's financial aid office or the Department of Education at: federalstudentaid.ed.gov

Next Steps

1. Find Out More About Other Loan Options.

Some schools have school-specific student loan benefits and terms not detailed on this form. Contact your school's financial aid office or visit the Department of Education's web site at federalstudentaid.ed.gov for more information about other loans.

2. To Apply for this Loan, Complete the Application and the School Certification Form.

You may get the certification form from your school's financial aid office. If you are approved for this loan, the loan terms will be available for 30 days (terms will not change during this period, except the variable interest rate may change based on adjustments to the index).

REFERENCE NOTES

Variable Interest Rate

- This loan has a variable interest rate, that is based on a publicly available index, the London Interbank Offered Rate (LIBOR). Your rate will be calculated each month by adding a margin between 3% and 14% to the LIBOR.

More information about loan eligibility is available in your loan application and promissory note.

Eligibility Criteria

Borrower

- Must be enrolled at an eligible school at least half-time.
- Must be 18 years or older at the time of loan application.

Co-signers

- Not required, but rates are typically higher without a co-signer.
- Must be 18 years or older at the time of loan application.

BORROWER:
 Christopher Smith Jr.
 1492 Columbus Way
 Plymouth, MA 02360

CREDITOR:
 First ABC Bank
 12345 1st St
 Anytown, CA 93120

Loan Rates & Estimated Total Costs

Amount Financed	Interest Rate	Finance Charge	Total of Payments
\$10,000.00	7.375%	\$18,541.24	\$ 28,541.24
The amount of credit provided to you or on your behalf.	Your current interest rate.	The estimated dollar amount the credit will cost you.	The estimated amount you will have paid when you have made all payments.

YOUR RATE IS VARIABLE

A variable rate means that your actual rate could be higher or lower than the interest rate indicated on this form, but will **never exceed a maximum of 25%**. The variable rate is calculated using a publicly available index. For more information on this variable rate, see notes on next page.

Based on the current interest rate, your estimated **Annual Percentage Rate (APR)**, which is the cost of your loan as a yearly rate, is **8.23%**.

ITEMIZATION OF AMOUNT FINANCED

Loan Amount	\$10,600.00
Less Lender Fee to make the loan (Origination Fee)	\$600.00
Total Amount Financed	\$10,000.00

OTHER FEES

- **Late Charge:** 5% of the amount of the past due payment, or \$25, whichever is greater.
- **Returned check charge:** up to \$25.
- **Fee upon entering repayment:** 3.5% of loan balance.

Estimated Repayment Schedule & Terms

20 YEAR LOAN TERM	MONTHLY PAYMENTS		◀ The estimated Total of Payments at the Maximum Rate of Interest would be \$154,927.62
	at 7.375% the current interest rate of your loan	at 25% the maximum interest rate possible with your loan	
Sep 1, 2009 - Oct 31, 2013 deferment period	No payment required ((\$3,799.67 in interest will accrue during this time)	No payment required (interest will accrue during this time)	
Nov 1, 2013 - Sep 30, 2033 239 monthly payments	\$118.93	\$645.41	
Oct 1, 2033 1 monthly payment	\$116.97	\$674.63	

Federal Loan Alternatives

Loan program	Current Interest Rates	
PERKINS for Students	5% fixed	
STAFFORD for Students	6% fixed	Undergraduate subsidized
	6.8% fixed	Undergraduate unsubsidized & Graduate
PLUS for Parents and Graduate / Professional Students	8.5% fixed	Federal Family Education Loan
	7.9% fixed	Federal Direct Loan

You may qualify for Federal education loans.

For additional information, contact your school's financial aid office or the Department of Education at: federalstudentaid.ed.gov

Next Steps & Terms of Acceptance

This offer is good until:

June 1, 2009

If you have not accepted by June 1, 2009, we may change the terms of this offer.

1. Find Out More About Other Loan Options.

Some schools have school-specific student loan benefits and terms not detailed on this form. Contact your school's financial aid office for more information.

2. The Terms of this Loan Offer Are Good for 30 days.

You have 30 days from the approval date to accept this offer. The terms of this offer will not change, except that the interest rate may vary with the market rate listed above. To accept the terms, contact us at:

First ABC Bank
12345 1st St
Anytown, CA 93120
(800) 555 - 5555

REFERENCE NOTES

Variable Interest Rate:

- Your loan has a variable interest rate that is based on a publicly available index, the London Interbank Offered Rate (LIBOR), which is currently 4.375%. Your rate is calculated each month by adding a margin of 3% to the LIBOR. The interest rate may be higher or lower than your Annual Percentage Rate (APR) because the APR accounts for the Interest Rate and certain fees you must pay to obtain this loan, and whether you defer (postpone) payments while in school.
- The rate will not increase more than once a month, but there is no limit on the amount that the rate could increase at one time. Your rate will never exceed 25%.
- Any increase will take the form of higher monthly payments.

Bankruptcy Limitations

- If you file for bankruptcy you may still be required to pay back this loan.

Repayment Options:

- Although you elected to postpone payments, you can still make payments during this time. You can also choose to change your deferment choice to: Pay Interest Only or Make Full Payments.

Prepayments:

- If you pay off early, you will not have to pay a penalty. You will not be entitled to a refund of part of the finance charge.

See your contract documents for any additional information about non-payment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

RIGHT TO CANCEL

You have a right to cancel this transaction, without penalty, by midnight on June 4, 2009. No funds will be disbursed to you or to your school until after this time. You may cancel by calling us at 800-555-5555.

BORROWER:
Christopher Smith Jr.
1492 Columbus Way
Plymouth, MA 02360

CREDITOR:
First ABC Bank
12345 1st St
Anytown, CA 93120
(800) 555 - 5555

Loan Rates & Estimated Total Costs

Amount Financed

\$10,000.00

The amount of credit provided to you or on your behalf.

Interest Rate

7.375%

Your current interest rate.

Finance Charge

\$18,541.24

The estimated dollar amount the credit will cost you.

Total of Payments

\$ 28,541.24

The estimated amount you will have paid when you have made all payments.

YOUR RATE IS VARIABLE

A variable rate means that your actual rate could be higher or lower than the interest rate indicated on this form, but will **never exceed a maximum of 25%**. The variable rate is calculated using a publicly available index. For more information on this variable rate, see notes on next page.

Based on the current interest rate, your estimated **Annual Percentage Rate (APR)**, which is the cost of your loan as a yearly rate, is **8.23%**.

ITEMIZATION OF AMOUNT FINANCED

Loan Amount	\$10,600.00
Less Lender Fee to make the loan (Origination Fee)	\$600.00
Total Amount Financed	\$10,000.00

OTHER FEES

- **Late Charge:** 5% of the amount of the past due payment, or \$25, whichever is greater.
- **Returned check charge:** up to \$25.
- **Fee upon entering repayment:** 3.5% of loan balance.

Estimated Repayment Schedule & Terms

20 YEAR LOAN TERM	MONTHLY PAYMENTS	
	at 7.375% the current interest rate of your loan	at 25% the maximum interest rate possible with your loan
Sep 1, 2009 - Oct 31, 2013 deferment period	No payment required (\$3,799.67 in interest will accrue during this time)	No payment required (interest will accrue during this time)
Nov 1, 2013 - Sep 30, 2033 239 monthly payments	\$118.93	\$645.41
Oct 1, 2033 1 monthly payment	\$116.97	\$674.63

◀ The estimated **Total of Payments** at the Maximum Rate of Interest would be **\$154,927.62**

REFERENCE NOTES**Variable Interest Rate:**

- Your loan has a variable interest rate that is based on a publicly available index, the London Interbank Offered Rate (LIBOR), which is currently 4.375%. Your rate is calculated each month by adding a margin of 3% to the LIBOR. The interest rate may be higher or lower than your Annual Percentage Rate (APR) because the APR accounts for the Interest Rate and certain fees you must pay to obtain this loan, and whether you defer (postpone) payments while in school.
- The rate will not increase more than once a month, but there is no limit on the amount that the rate could increase at one time. Your rate will never exceed 25%.
- Any increase will take the form of higher monthly payments.

Bankruptcy Limitations

- If you file for bankruptcy you may still be required to pay back this loan.

Repayment Options:

- Although you elected to postpone payments, you can still make payments during this time. You can also choose to change your deferment choice to: Pay Interest Only or Make Full Payments.

Prepayments:

- If you pay off early, you will not have to pay a penalty. You will not be entitled to a refund of part of the finance charge.

See your contract documents for any additional information about non-payment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

5.2.2. Comparison Shopping Alternatives for Application & Solicitation Disclosure

First ABC Bank
 12345 1st St
 Anytown, CA 93120
 (800) 555 - 5555

Loan Rates & Fees

STARTING INTEREST RATES

The current range of initial interest rates for this loan

5.5% to **15.5%**

◀ Your specific starting interest rate will be determined based upon your creditworthiness and other factors (e.g. school-type or level, co-signer creditworthiness, etc).

INTEREST RATE VARIABILITY

How rates vary and applicable maximum rates

The Interest Rate will vary but will never exceed **25%**

◀ Your interest rate will vary with the market based upon the standard LIBOR Rate (a publicly available interest rate). The rate can change once a month and there is no limit on how much the rate can increase at one time.

FEES

Applicable fees associated with this loan

Application Fee: \$15. **Origination Fee:** The fees that we charge to make this loan range from 0% to 6%. **Repayment Fee:** The fees we charge when you begin repayment range from 0% to 3.5%. **Late Charge:** 5% of the amount of the past due payment, or \$25, whichever is greater. **Returned check charge:** up to \$25.

Example Loan Costs by In-School Repayment Option

Repayment Options (while continuously enrolled in school)	Loan amount	Interest Rate (highest possible starting rate)	Loan Term (the length of time you have to pay-off the loan)	Total Paid (including associated fees)
1. DEFER PAYMENTS Make no payments while enrolled in school. Interest will be charged and added to your loan	\$10,000.00	15.5%	20 years (starting <u>after</u> the deferment period)	\$67,196.99
2. PAY THE INTEREST ONLY Make interest payments but defer payments on the principal amount	\$10,000.00	15.5%	20 years (starting <u>after</u> the deferment period)	\$46,582.36
3. MAKE FULL PAYMENTS Pay both the principal and interest amounts	\$10,000.00	15.5%	20 years (starting from initial payment date)	\$39,607.35

About the Example

The repayment example above is based on the **highest starting rate currently available** and associated fees. It assumes that the borrower remains in school for 4 years and has a 6 month grace period before beginning repayment.

For loan amounts **up to \$20,000**, repayment will last 20 years, starting once the initial principal payment is made. For loan amounts **more than \$20,000** repayment will last 30 years, starting once the initial principal payment is made.

Federal Loan Alternatives

Loan program	Current Interest Rates	
PERKINS for Students	5% fixed	
STAFFORD for Students	6% fixed	Undergraduate subsidized
	6.8% fixed	Undergraduate unsubsidized & Graduate
PLUS for Parents and Graduate / Professional Students	8.5% fixed	Federal Family Education Loan
	7.9% fixed	Federal Direct Loan

You may qualify for Federal education loans.

For additional information, contact your school's financial aid office or the Department of Education at: federalstudentaid.ed.gov

Next Steps

1. Find Out More About Other Loan Options.

Some schools have school-specific student loan benefits and terms not detailed on this form. Contact your school's financial aid office or visit the Department of Education's web site at federalstudentaid.ed.gov for more information about other loans.

2. To Apply for this Loan, Complete the Application and the School Certification Form.

You may get the certification form from your school's financial aid office. If you are approved for this loan, the loan terms will be available for 30 days (terms will not change during this period, except the variable interest rate may change based on adjustments to the index).

REFERENCE NOTES

Variable Interest Rate

- This loan has a variable interest rate, that is based on a publicly available index, the London Interbank Offered Rate (LIBOR). Your rate will be calculated each month by adding a margin between 3% and 14% to the LIBOR.

More information about loan eligibility is available in your loan application and promissory note.

Eligibility Criteria

Borrower

- Must be enrolled at an eligible school at least half-time.
- Must be 18 years or older at the time of loan application.

Co-signers

- Not required, but rates are typically higher without a co-signer.
- Must be 18 years or older at the time of loan application.

First ABC Bank
 12345 1st St
 Anytown, CA 93120
 (800) 555 - 5555

Loan Rates & Fees

STARTING INTEREST RATES

The current range of initial interest rates for this loan

6.45% to **9.25%**

◀ Your specific starting interest rate will be determined based upon your creditworthiness and other factors (e.g. school-type or level, co-signer creditworthiness, etc).

INTEREST RATE VARIABILITY

How rates vary and applicable maximum rates

The Interest Rate will vary but will never exceed **25%**

◀ Your interest rate will vary with the market based upon the standard LIBOR Rate (a publicly available interest rate). The rate can change once a month and there is no limit on how much the rate can increase at one time.

FEES

Applicable fees associated with this loan

Application Fee: \$15. **Origination Fee:** The fees that we charge to make this loan range from 0% to 6%. **Repayment Fee:** The fees we charge when you begin repayment range from 0% to 3.5%. **Late Charge:** 5% of the amount of the past due payment, or \$25, whichever is greater. **Returned check charge:** up to \$25.

Example Loan Costs by In-School Repayment Option

Repayment Options (while continuously enrolled in school)	Loan amount	Interest Rate (highest possible starting rate)	Loan Term (the length of time you have to pay-off the loan)	Total Paid (including associated fees)
1. DEFER PAYMENTS Make no payments while enrolled in school. Interest will be charged and added to your loan	\$10,000.00	9.25%	25 years (starting <u>after</u> the deferment period)	\$36,381.44
2. PAY THE INTEREST ONLY Make interest payments but defer payments on the principal amount	\$10,000.00	9.25%	25 years (starting <u>after</u> the deferment period)	\$29,852.51
3. MAKE FULL PAYMENTS Pay both the principal and interest amounts	\$10,000.00	9.25%	25 years (starting from initial payment date)	\$25,690.01

About the Example

The repayment example above is based on the **highest starting rate currently available** and associated fees. It assumes that the borrower remains in school for 4 years and has a 6 month grace period before beginning repayment.

For loan amounts **up to \$20,000**, repayment will last 25 years, starting once the initial principal payment is made. For loan amounts **more than \$20,000** repayment will last 30 years, starting once the initial principal payment is made.

Federal Loan Alternatives

Loan program	Current Interest Rates	
PERKINS for Students	5% fixed	
STAFFORD for Students	6% fixed	Undergraduate subsidized
	6.8% fixed	Undergraduate unsubsidized & Graduate
PLUS for Parents and Graduate / Professional Students	8.5% fixed	Federal Family Education Loan
	7.9% fixed	Federal Direct Loan

You may qualify for Federal education loans.

For additional information, **contact your school's financial aid office or the Department of Education at:**
federalstudentaid.ed.gov

Next Steps

1. Find Out More About Other Loan Options.

Some schools have school-specific student loan benefits and terms not detailed on this form. Contact your school's financial aid office or visit the Department of Education's web site at federalstudentaid.ed.gov for more information about other loans.

2. To Apply for this Loan, Complete the Application and the School Certification Form.

You may get the certification form from your school's financial aid office. If you are approved for this loan, the loan terms will be available for 30 days (terms will not change during this period, except the variable interest rate may change based on adjustments to the index).

REFERENCE NOTES

Variable Interest Rate

- This loan has a variable interest rate, that is based on a publicly available index, the London Interbank Offered Rate (LIBOR). Your rate will be calculated each month by adding a margin between 3% and 14% to the LIBOR.

More information about loan eligibility is available in your loan application and promissory note.

Eligibility Criteria

Borrower

- Must be enrolled at an eligible school at least half-time.
- Must be 18 years or older at the time of loan application.

Co-signers

- Not required, but rates are typically higher without a co-signer.
- Must be 18 years or older at the time of loan application.

5.2.3 No Maximum Rate Versions

First ABC Bank
 12345 1st St
 Anytown, CA 93120
 (800) 555 - 5555

Loan Rates & Fees

STARTING INTEREST RATES

The current range of initial interest rates for this loan

7.375% to **17.375%**

◀ Your specific starting interest rate will be determined based upon your creditworthiness and other factors (e.g. school-type or level, co-signer creditworthiness, etc).

INTEREST RATE VARIABILITY

How rates vary and applicable maximum rates

The Interest Rate will vary and there is **no maximum rate**

◀ Your interest rate will vary with the market based upon the standard LIBOR Rate (a publicly available interest rate). The rate can change once a month and there is no limit on how much the rate can increase at one time.

FEES

Applicable fees associated with this loan

Application Fee: \$15. **Origination Fee:** The fees that we charge to make this loan range from 0% to 6%. **Repayment Fee:** The fees we charge when you begin repayment range from 0% to 3.5%. **Late Charge:** 5% of the amount of the past due payment, or \$25, whichever is greater. **Returned check charge:** up to \$25.

Example Loan Costs by In-School Repayment Option

Repayment Options (while continuously enrolled in school)	Loan amount	Interest Rate (highest possible starting rate)	Loan Term (the length of time you have to pay-off the loan)	Total Paid (including associated fees)
1. DEFER PAYMENTS Make no payments while enrolled in school. Interest will be charged and added to your loan	\$10,000.00	17.375%	20 years (starting <u>after</u> the deferment period)	\$80,791.75
2. PAY THE INTEREST ONLY Make interest payments but defer payments on the principal amount	\$10,000.00	17.375%	20 years (starting <u>after</u> the deferment period)	\$50,524.24
3. MAKE FULL PAYMENTS Pay both the principal and interest amounts	\$10,000.00	17.375%	20 years (starting from initial payment date)	\$39,374.08

About the Example

The repayment example above is based on the **highest starting rate currently available** and associated fees. It assumes that the borrower remains in school for 4 years and has a 6 month grace period before beginning repayment.

For loan amounts **up to \$20,000**, repayment will last 20 years, starting once the initial principal payment is made. For loan amounts **more than \$20,000** repayment will last 30 years, starting once the initial principal payment is made.

Federal Loan Alternatives

Loan program	Current Interest Rates	
PERKINS for Students	5% fixed	
STAFFORD for Students	6% fixed	Undergraduate subsidized
	6.8% fixed	Undergraduate unsubsidized & Graduate
PLUS for Parents and Graduate / Professional Students	8.5% fixed	Federal Family Education Loan
	7.9% fixed	Federal Direct Loan

You may qualify for Federal education loans.

For additional information, contact your school's financial aid office or the Department of Education at: federalstudentaid.ed.gov

Next Steps

1. Find Out More About Other Loan Options.

Some schools have school-specific student loan benefits and terms not detailed on this form. Contact your school's financial aid office or visit the Department of Education's web site at federalstudentaid.ed.gov for more information about other loans.

2. To Apply for this Loan, Complete the Application and the School Certification Form.

You may get the certification form from your school's financial aid office. If you are approved for this loan, the loan terms will be available for 30 days (terms will not change during this period, except the variable interest rate may change based on adjustments to the index).

REFERENCE NOTES

Variable Interest Rate

- This loan has a variable interest rate, that is based on a publicly available index, the London Interbank Offered Rate (LIBOR). Your rate will be calculated each month by adding a margin between 3% and 14% to the LIBOR.

More information about loan eligibility is available in your loan application and promissory note.

Eligibility Criteria

Borrower

- Must be enrolled at an eligible school at least half-time.
- Must be 18 years or older at the time of loan application.

Co-signers

- Not required, but rates are typically higher without a co-signer.
- Must be 18 years or older at the time of loan application.

BORROWER:
Christopher Smith Jr.
1492 Columbus Way
Plymouth, MA 02360

CREDITOR:
First ABC Bank
12345 1st St
Anytown, CA 93120

Loan Rates & Estimated Total Costs

Amount Financed

\$10,000.00

The amount of credit provided to you or on your behalf.

Interest Rate

7.375%

Your current interest rate.

Finance Charge

\$18,541.24

The estimated dollar amount the credit will cost you.

Total of Payments

\$ 28,541.24

The estimated amount you will have paid when you have made all payments.

YOUR RATE IS VARIABLE

A variable rate means that your actual rate could be higher or lower than the interest rate indicated on this form. **There is no maximum rate.** The variable rate is calculated using a publicly available index. For more information on this variable rate, see notes on next page.

Based on the current interest rate, your estimated **Annual Percentage Rate (APR)**, which is the cost of your loan as a yearly rate, is **8.23%**.

ITEMIZATION OF AMOUNT FINANCED

Loan Amount	\$10,600.00
Less Lender Fee to make the loan (Origination Fee)	\$600.00
Total Amount Financed	\$10,000.00

OTHER FEES

- **Late Charge:** 5% of the amount of the past due payment, or \$25, whichever is greater.
- **Returned check charge:** up to \$25.
- **Fee upon entering repayment:** 3.5% of loan balance.

Estimated Repayment Schedule & Terms

20 YEAR LOAN TERM	MONTHLY PAYMENTS	
	at 7.375% the current rate of your loan	No Maximum Rate example at 21%
Sep 1, 2009 - Oct 31, 2013 deferment period	No payment required (\$3,799.67 in interest will accrue during this time)	No payment required (interest will accrue during this time)
Nov 1, 2013 - Sep 30, 2033 239 monthly payments	\$118.93	\$464.31 (your payments will be higher if the rate increases above 21%)
Oct 1, 2033 1 monthly payment	\$116.97	\$479.55 (your payments will be higher if the rate increases above 21%)

◀ Though your loan does not have a maximum interest rate, an **example rate of 21%** has been used for comparative purposes.

The estimated **Total of Payments** if your rate rises to 21% would be **\$111,449.64**. Your Total of Payments will be higher if rate increases above 21%.

Federal Loan Alternatives

Loan program	Current Interest Rates	
PERKINS for Students	5% fixed	
STAFFORD for Students	6% fixed	Undergraduate subsidized
	6.8% fixed	Undergraduate unsubsidized & Graduate
PLUS for Parents and Graduate / Professional Students	8.5% fixed	Federal Family Education Loan
	7.9% fixed	Federal Direct Loan

You may qualify for Federal education loans.

For additional information, **contact your school's financial aid office or the Department of Education at:**
federalstudentaid.ed.gov

Next Steps & Terms of Acceptance

This offer is good until:

June 1, 2009

If you have not accepted by June 1, 2009, we may change the terms of this offer.

1. Find Out More About Other Loan Options.

Some schools have school-specific student loan benefits and terms not detailed on this form. Contact your school's financial aid office for more information.

2. The Terms of this Loan Offer Are Good for 30 days.

You have 30 days from the approval date to accept this offer. The terms of this offer will not change, except that the interest rate may vary with the market rate listed above. To accept the terms, contact us at:

First ABC Bank
12345 1st St
Anytown, CA 93120
(800) 555 - 5555

REFERENCE NOTES

Variable Interest Rate:

- Your loan has a variable interest rate that is based on a publicly available index, the London Interbank Offered Rate (LIBOR), which is currently 4.375%. Your rate is calculated each month by adding a margin of 3% to the LIBOR. The interest rate may be higher or lower than your Annual Percentage Rate (APR) because the APR accounts for the Interest Rate and certain fees you must pay to obtain this loan, and whether you defer (postpone) payments while in school.
- The rate will not increase more than once a month, but there is no limit on the amount that the rate could increase at one time. Your loan has no maximum rate.
- Any increase will take the form of higher monthly payments.

Bankruptcy Limitations

- If you file for bankruptcy you may still be required to pay back this loan.

Repayment Options:

- Although you elected to postpone payments, you can still make payments during this time. You can also choose to change your deferment choice to: Pay Interest Only or Make Full Payments.

Prepayments:

- If you pay off early, you will not have to pay a penalty. You will not be entitled to a refund of part of the finance charge.

See your contract documents for any additional information about non-payment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

RIGHT TO CANCEL

You have a right to cancel this transaction, without penalty, by midnight on June 4, 2009. No funds will be disbursed to you or to your school until after this time. You may cancel by calling us at 800-555-5555.

BORROWER:

Christopher Smith Jr.
1492 Columbus Way
Plymouth, MA 02360

CREDITOR:

First ABC Bank
12345 1st St
Anytown, CA 93120
(800) 555 - 5555

Loan Rates & Estimated Total Costs

Amount Financed

\$10,000.00

The amount of credit provided to you or on your behalf.

Interest Rate

7.375%

Your current interest rate.

Finance Charge

\$18,541.24

The estimated dollar amount the credit will cost you.

Total of Payments

\$ 28,541.24

The estimated amount you will have paid when you have made all payments.

YOUR RATE IS VARIABLE

A variable rate means that your actual rate could be higher or lower than the interest rate indicated on this form. **There is no maximum rate.** The variable rate is calculated using a publicly available index. For more information on this variable rate, see notes on next page.

Based on the current interest rate, your estimated **Annual Percentage Rate (APR)**, which is the cost of your loan as a yearly rate, is **8.23%**.

ITEMIZATION OF AMOUNT FINANCED

Loan Amount	\$10,600.00
Less Lender Fee to make the loan (Origination Fee)	\$600.00
Total Amount Financed	\$10,000.00

OTHER FEES

- **Late Charge:** 5% of the amount of the past due payment, or \$25, whichever is greater.
- **Returned check charge:** up to \$25.
- **Fee upon entering repayment:** 3.5% of loan balance.

Estimated Repayment Schedule & Terms

20 YEAR LOAN TERM	MONTHLY PAYMENTS	
	at 7.375% the current rate of your loan	No Maximum Rate example at 21%
Sep 1, 2009 - Oct 31, 2013 deferment period	No payment required (\$3,799.67 in interest will accrue during this time)	No payment required (interest will accrue during this time)
Nov 1, 2013 - Sep 30, 2033 239 monthly payments	\$118.93	\$464.31 (your payments will be higher if the rate increases above 21%)
Oct 1, 2033 1 monthly payment	\$116.97	\$479.55 (your payments will be higher if the rate increases above 21%)

Though your loan does not have a maximum interest rate, an example rate of 21% has been used for comparative purposes.

The estimated **Total of Payments** if your rate rises to 21% would be **\$111,449.64**. Your Total of Payments will be higher if rate increases above 21%.

REFERENCE NOTES**Variable Interest Rate:**

- Your loan has a variable interest rate that is based on a publicly available index, the London Interbank Offered Rate (LIBOR), which is currently 4.375%. Your rate is calculated each month by adding a margin of 3% to the LIBOR. The interest rate may be higher or lower than your Annual Percentage Rate (APR) because the APR accounts for the Interest Rate and certain fees you must pay to obtain this loan, and whether you defer (postpone) payments while in school.
- The rate will not increase more than once a month, but there is no limit on the amount that the rate could increase at one time. Your loan has no maximum rate.
- Any increase will take the form of higher monthly payments.

Bankruptcy Limitations

- If you file for bankruptcy you may still be required to pay back this loan.

Repayment Options:

- Although you elected to postpone payments, you can still make payments during this time. You can also choose to change your deferment choice to: Pay Interest Only or Make Full Payments.

Prepayments:

- If you pay off early, you will not have to pay a penalty. You will not be entitled to a refund of part of the finance charge.

See your contract documents for any additional information about non-payment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

5.3. Private Education Loan Disclosures: Model Form Designs for Round 3 of Testing

5.3.1. Model Form Designs

First ABC Bank
 12345 1st St
 Anytown, CA 93120
 (800) 555 - 5555

Loan Interest Rates & Fees

Your starting interest rate will be between

7.375%

- 17.375%

After the starting rate is set, your rate will then vary with the market

Your Starting Interest Rate (upon approval)

Your specific rate from within the range will be determined after you apply and will be based upon your credit and other factors (e.g. school type, co-signer credit, etc). If approved, we will notify you of the rate you qualify for.

Your interest rate during the life of the loan

After your initial rate is set, it will then **vary with the market** based upon the LIBOR Rate (as published in the Wall Street Journal). The rate can change once a month and there is no limit on how much the rate can increase at one time.

Although your rate will vary after approval, it will **never exceed 25%** (the maximum allowable for this loan)

Fees

Application Fee: \$15. **Origination Fee:** The fees that we charge to make this loan range from 0% to 6% of total loan amount. **Loan Guarantee Fee:** 0% to 6% of total loan amount. **Repayment Fee:** The fees we charge when you begin repayment range from 0% to 3.5% of the total loan amount. **Late Charge:** 5% of the amount of the past due payment, or \$25, whichever is greater. **Returned check charge:** up to \$25.

Example Loan Costs

The total amount you will pay for this loan will vary depending upon when you start to repay it. This sample provides estimates based upon three (3) different repayment options available to you while enrolled in school.

Repayment Option (while enrolled in school)	Loan amount	Interest Rate (highest possible starting rate)	Loan Term (the length of time you have to pay-off the loan)	Total Paid over 20 years (includes associated fees)
1. DEFER PAYMENTS Make no payments while enrolled in school. Interest will be charged and added to your loan	\$10,000.00	17.375%	20 years starting <u>after</u> the deferment period	\$80,791.75
2. PAY THE INTEREST ONLY Make interest payments but defer payments on the principal amount while enrolled in school.	\$10,000.00	17.375%	20 years starting <u>after</u> the deferment period	\$50,524.24
3. MAKE FULL PAYMENTS Pay both the principal and interest amounts while enrolled in school.	\$10,000.00	17.375%	20 years starting after your first payment	\$39,374.08

About this example

The repayment example assumes that the borrower remains in school for 4 years and has a 6 month grace period before beginning repayment. It is based on the **highest starting rate currently available** and associated fees. For loan amounts **up to \$20,000**, repayment will last 20 years, starting once the initial principal payment is made. For loan amounts **more than \$20,000** repayment will last 30 years, starting once the initial principal payment is made.

Federal Loan Alternatives

Loan program	Current Interest Rates	
PERKINS for Students	5% fixed	
STAFFORD for Students	6% fixed	Undergraduate subsidized
	6.8% fixed	Undergraduate unsubsidized & Graduate
PLUS for Parents and Graduate / Professional Students	8.5% fixed	Federal Family Education Loan
	7.9% fixed	Federal Direct Loan

You may qualify for Federal education loans.

For additional information, **contact your school's financial aid office or the Department of Education at:**

www.federalstudentaid.ed.gov

Next Steps

1. Find Out More About Other Loan Options.

Some schools have school-specific student loan benefits and terms not detailed on this form. Contact your school's financial aid office or visit the Department of Education's web site at federalstudentaid.ed.gov for more information about other loans.

2. To Apply for this Loan, Complete the Application and the School Certification Form.

You may get the certification form from your school's financial aid office. If you are approved for this loan, the loan terms will be available for 30 days (terms will not change during this period, except the variable interest rate may change based on adjustments to the index).

REFERENCE NOTES

Variable Interest Rate

- This loan has a variable interest rate, that is based on a publicly available index, the London Interbank Offered Rate (LIBOR). Your rate will be calculated each month by adding a margin between 3% and 13% to the LIBOR.

More information about loan eligibility is available in your loan application and promissory note.

Eligibility Criteria

Borrower

- Must be enrolled at an eligible school at least half-time.
- Must be 18 years or older at the time of loan application.

Co-signers

- Not required, but rates are typically higher without a co-signer.
- Must be 18 years or older at the time of loan application.

BORROWER:
Christopher Smith Jr.
1492 Columbus Way
Plymouth, MA 02360

CREDITOR:
First ABC Bank
12345 1st St
Anytown, CA 93120

Loan Rates & Estimated Total Costs

Total Loan Amount

\$10,600.00

The total amount you are borrowing.

Interest Rate

7.375%

Your current interest rate.

Finance Charge

\$18,541.24

The estimated dollar amount the credit will cost you.

Total of Payments

\$ 28,541.24

The estimated amount you will have paid when you have made all payments.

ITEMIZATION OF AMOUNT FINANCED

Amount paid to you	\$0.00
Amount paid to others on your Behalf:	+ \$10,000
• Pennsylvania State University	
Total Amount Financed	= \$10,000
Initial finance charges (total)	+ \$600
• Origination Fee (\$300)	
• Loan Guarantee Fee (\$300)	
Total Loan Amount	= \$10,600

ABOUT YOUR INTEREST RATE

- **Your rate is variable.** This means that your actual rate varies with the market and could be lower or higher than the rate indicated on this form. The variable rate is calculated using a publicly available index. For more information on this rate, see reference notes.
- Although your rate will vary, **it will never exceed 25%** (the maximum allowable for this loan).
- Your **Annual Percentage Rate (APR) is 8.23%**. The APR is typically different than the Interest Rate since it considers fees and then reflects the cost of your loan as a yearly rate. For more information about the APR, see reference notes.

FEES

- **Late Charge:** 5% of the amount of the past due payment, or \$25, whichever is greater.
- **Returned check charge:** up to \$25.
- **Fee upon entering repayment:** 3.5% of loan balance.

Estimated Repayment Schedule & Terms

20 YEAR LOAN TERM	MONTHLY PAYMENTS	
	at 7.375% the current interest rate of your loan	at 25% the maximum interest rate possible with your loan
Sep 1, 2009 - Oct 31, 2013 deferment period	No payment required (\$3,799.67 in interest will accrue during this time)	No payment required (interest will accrue during this time)
Nov 1, 2013 - Sep 30, 2033 239 monthly payments	\$118.93	\$645.41
Oct 1, 2033 1 monthly payment	\$116.97	\$674.63

◀ The estimated **Total of Payments** at the Maximum Rate of Interest would be **\$154,927.62**

Federal Loan Alternatives

Loan program	Current Interest Rates
PERKINS for Students	5% fixed
STAFFORD for Students	6% fixed Undergraduate subsidized
	6.8% fixed Undergraduate unsubsidized & Graduate
PLUS for Parents and Graduate / Professional Students	8.5% fixed Federal Family Education Loan
	7.9% fixed Federal Direct Loan

You may qualify for Federal education loans.

For additional information, contact your school's financial aid office or the Department of Education at: federalstudentaid.ed.gov

Next Steps & Terms of Acceptance

This offer is good until:

August 1, 2009

1. Find Out More About Other Loan Options.

Some schools have school-specific student loan benefits and terms not detailed on this form. Contact your school's financial aid office for more information.

2. You Have Until August 1, 2009 to Accept this Offer

The terms of this offer will not change with the following exceptions:

- the interest rate may vary with the market.
- the information on your application will be verified to ensure you meet the eligibility and legal requirements for this loan.
- your school will be asked to verify that you are eligible for the approved loan amount.

To Accept the Terms of this loan, contact us at

First ABC Bank,
12345 1st Street,
Anytown, CA 93120,
(800) 555 - 5555

REFERENCE NOTES

Variable Interest Rate:

- Your loan has a variable interest rate that is based on a publicly available index, the London Interbank Offered Rate (LIBOR), which is currently 4.375%. Your rate is calculated each month by adding a margin of 3% to the LIBOR.
- The interest rate may be higher or lower than your Annual Percentage Rate (APR) because the APR accounts for the Interest Rate and certain fees you must pay to obtain this loan, and whether you defer (postpone) payments while in school.
- The rate will not increase more than once a month, but there is no limit on the amount that the rate could increase at one time. Your rate will never exceed 25%.
- Any increase will take the form of higher monthly payments.

Bankruptcy Limitations

- If you file for bankruptcy you may still be required to pay back this loan.

Repayment Options:

- Although you elected to postpone payments, you can still make payments during this time. You can also choose to change your deferment choice to: Pay Interest Only or Make Full Payments.

Prepayments:

- If you pay off early, you will not have to pay a penalty. You will not be entitled to a refund of part of the finance charge.

See your contract documents for any additional information about non-payment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

BORROWER:
Christopher Smith Jr.
1492 Columbus Way
Plymouth, MA 02360

CREDITOR:
First ABC Bank
12345 1st St
Anytown, CA 93120
(800) 555 - 5555

RIGHT TO CANCEL

You have a right to cancel this transaction, without penalty, by midnight on August 4, 2009. No funds will be disbursed to you or to your school until after this time. You may cancel by calling us at 800-555-5555.

Loan Rates & Estimated Total Costs

Total Loan Amount

\$10,600.00

The total amount you are borrowing.

Interest Rate

7.375%

Your current interest rate.

Finance Charge

\$18,541.24

The estimated dollar amount the credit will cost you.

Total of Payments

\$ 28,541.24

The estimated amount you will have paid when you have made all payments.

ITEMIZATION OF AMOUNT FINANCED

Amount paid to you	\$0.00
Amount paid to others on your Behalf:	+ \$10,000
• Pennsylvania State University	
Total Amount Financed	= \$10,000
Initial finance charges (total)	+ \$600
• Origination Fee (\$300)	
• Loan Guarantee Fee (\$300)	
Total Loan Amount	= \$10,600

ABOUT YOUR INTEREST RATE

- **Your rate is variable.** This means that your actual rate varies with the market and could be lower or higher than the rate indicated on this form. The variable rate is calculated using a publicly available index. For more information on this rate, see reference notes.
- Although your rate will vary, **it will never exceed 25%** (the maximum allowable for this loan).
- Your **Annual Percentage Rate (APR) is 8.23%**. The APR is typically different than the Interest Rate since it considers fees and then reflects the cost of your loan as a yearly rate. For more information about the APR, see reference notes.

FEES

- **Late Charge:** 5% of the amount of the past due payment, or \$25, whichever is greater.
- **Returned check charge:** up to \$25.
- **Fee upon entering repayment:** 3.5% of loan balance.

Estimated Repayment Schedule & Terms

20 YEAR LOAN TERM	MONTHLY PAYMENTS	
	at 7.375% the current interest rate of your loan	at 25% the maximum interest rate possible with your loan
Sep 1, 2009 - Oct 31, 2013 deferment period	No payment required (\$3,799.67 in interest will accrue during this time)	No payment required (interest will accrue during this time)
Nov 1, 2013 - Sep 30, 2033 239 monthly payments	\$118.93	\$645.41
Oct 1, 2033 1 monthly payment	\$116.97	\$674.63

◀ The estimated **Total of Payments** at the Maximum Rate of Interest would be **\$154,927.62**

REFERENCE NOTES**Variable Interest Rate:**

- Your loan has a variable interest rate that is based on a publicly available index, the London Interbank Offered Rate (LIBOR), which is currently 4.375%. Your rate is calculated each month by adding a margin of 3% to the LIBOR.
- The interest rate may be higher or lower than your Annual Percentage Rate (APR) because the APR accounts for the Interest Rate and certain fees you must pay to obtain this loan, and whether you defer (postpone) payments while in school.
- The rate will not increase more than once a month, but there is no limit on the amount that the rate could increase at one time. Your rate will never exceed 25%.
- Any increase will take the form of higher monthly payments.

Bankruptcy Limitations

- If you file for bankruptcy you may still be required to pay back this loan.

Repayment Options:

- Although you elected to postpone payments, you can still make payments during this time. You can also choose to change your deferment choice to: Pay Interest Only or Make Full Payments.

Prepayments:

- If you pay off early, you will not have to pay a penalty. You will not be entitled to a refund of part of the finance charge.

See your contract documents for any additional information about non-payment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

5.3.2. Comparison Shopping Alternative for Approval Disclosure

BORROWER:
 Christopher Smith Jr.
 1492 Columbus Way
 Plymouth, MA 02360

CREDITOR:
 First ABC Bank
 12345 1st St
 Anytown, CA 93120

Loan Rates & Estimated Total Costs

Total Loan Amount

\$10,300.00

The total amount you are borrowing.

Interest Rate

7.5%

Your current interest rate.

Finance Charge

\$17,309.61

The estimated dollar amount the credit will cost you.

Total of Payments

\$ 27,309.61

The estimated amount you will have paid when you have made all payments.

ITEMIZATION OF AMOUNT FINANCED

Amount paid to you	\$0.00
Amount paid to others on your Behalf:	+ \$10,000
• Pennsylvania State University	
Total Amount Financed	= \$10,000
Initial finance charges (total)	+ \$300
• Origination Fee (\$300)	
Total Loan Amount	= \$10,300

ABOUT YOUR INTEREST RATE

- **Your rate is variable.** This means that your actual rate varies with the market and could be lower or higher than the rate indicated on this form. The variable rate is calculated using a publicly available index. For more information on this rate, see reference notes.
- Although your rate will vary, **it will never exceed 25%** (the maximum allowable for this loan).
- Your **Annual Percentage Rate (APR) is 7.85%**. The APR is typically different than the Interest Rate since it considers fees and then reflects the cost of your loan as a yearly rate. For more information about the APR, see reference notes.

FEES

- **Late Charge:** 5% of the amount of the past due payment, or \$25, whichever is greater.
- **Returned check charge:** up to \$25.

Estimated Repayment Schedule & Terms

20 YEAR LOAN TERM	MONTHLY PAYMENTS		◀ The estimated Total of Payments at the Maximum Rate of Interest would be \$145,380.95
	at 7.5% the current interest rate of your loan	at 25% the maximum interest rate possible with your loan	
Sep 1, 2009 - Oct 31, 2013 deferment period	No payment required (\$3,824.95 in interest will accrue during this time)	No payment required (interest will accrue during this time)	
Nov 1, 2013 - Sep 30, 2033 239 monthly payments	\$113.79	\$605.73	
Oct 1, 2033 1 monthly payment	\$113.80	\$611.48	

Federal Loan Alternatives

Loan program	Current Interest Rates	
PERKINS for Students	5% fixed	
STAFFORD for Students	6% fixed	Undergraduate subsidized
	6.8% fixed	Undergraduate unsubsidized & Graduate
PLUS for Parents and Graduate / Professional Students	8.5% fixed	Federal Family Education Loan
	7.9% fixed	Federal Direct Loan

You may qualify for Federal education loans.

For additional information, contact your school's financial aid office or the Department of Education at:
federalstudentaid.ed.gov

Next Steps & Terms of Acceptance

This offer is good until:

August 1, 2009

1. Find Out More About Other Loan Options.

Some schools have school-specific student loan benefits and terms not detailed on this form. Contact your school's financial aid office for more information.

2. You Have Until August 1, 2009 to Accept this Offer

The terms of this offer will not change with the following exceptions:

- the interest rate may vary with the market.
- the information on your application will be verified to ensure you meet the eligibility and legal requirements for this loan.
- your school will be asked to verify that you are eligible for the approved loan amount.

To Accept the Terms of this loan, contact us at

First ABC Bank,
12345 1st Street,
Anytown, CA 93120,
(800) 555 - 5555

REFERENCE NOTES

Variable Interest Rate:

- Your loan has a variable interest rate that is based on a publicly available index, the London Interbank Offered Rate (LIBOR), which is currently 4.375%. Your rate is calculated each month by adding a margin of 3.125% to the LIBOR.
- The interest rate may be higher or lower than your Annual Percentage Rate (APR) because the APR accounts for the Interest Rate and certain fees you must pay to obtain this loan, and whether you defer (postpone) payments while in school.
- The rate will not increase more than once a month, but there is no limit on the amount that the rate could increase at one time. Your rate will never exceed 25%.
- Any increase will take the form of higher monthly payments.

Bankruptcy Limitations

- If you file for bankruptcy you may still be required to pay back this loan.

Repayment Options:

- Although you elected to postpone payments, you can still make payments during this time. You can also choose to change your deferment choice to: Pay Interest Only or Make Full Payments.

Prepayments:

- If you pay off early, you will not have to pay a penalty. You will not be entitled to a refund of part of the finance charge.

See your contract documents for any additional information about non-payment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

5.3.3 No Maximum Rate Versions

First ABC Bank
 12345 1st St
 Anytown, CA 93120
 (800) 555 - 5555

Loan Interest Rates & Fees

Your starting interest rate will be between

7.375%

-

17.375%

After the starting rate is set, your rate will then vary with the market

Your Starting Interest Rate (upon approval)

Your specific rate from within the range will be determined after you apply and will be based upon your credit and other factors (e.g. school type, co-signer credit, etc). If approved, we will notify you of the rate you qualify for.

Your interest rate during the life of the loan

After your initial rate is set, it will then vary with the market based upon the LIBOR Rate (as published in the Wall Street Journal). The rate can change once a month and there is no limit on how much the rate can increase at one time.

This loan does not have a maximum rate.

Fees

Application Fee: \$15. **Origination Fee:** The fees that we charge to make this loan range from 0% to 6% of total loan amount. **Loan Guarantee Fee:** 0% to 6% of total loan amount. **Repayment Fee:** The fees we charge when you begin repayment range from 0% to 3.5% of the total loan amount. **Late Charge:** 5% of the amount of the past due payment, or \$25, whichever is greater. **Returned check charge:** up to \$25.

Example Loan Costs

The total amount you will pay for this loan will vary depending upon when you start to repay it. This sample provides estimates based upon three (3) different repayment options available to you while enrolled in school.

Repayment Option (while enrolled in school)	Loan amount	Interest Rate (highest possible starting rate)	Loan Term (the length of time you have to pay-off the loan)	Total Paid over 20 years (includes associated fees)
1. DEFER PAYMENTS Make no payments while enrolled in school. Interest will be charged and added to your loan	\$10,000.00	17.375%	20 years starting <u>after</u> the deferment period	\$80,791.75
2. PAY THE INTEREST ONLY Make interest payments but defer payments on the principal amount while enrolled in school.	\$10,000.00	17.375%	20 years starting <u>after</u> the deferment period	\$50,524.24
3. MAKE FULL PAYMENTS Pay both the principal and interest amounts while enrolled in school.	\$10,000.00	17.375%	20 years starting after your first payment	\$39,374.08

About this example

The repayment example assumes that the borrower remains in school for 4 years and has a 6 month grace period before beginning repayment. It is based on the **highest starting rate currently available** and associated fees. For loan amounts **up to \$20,000**, repayment will last 20 years, starting once the initial principal payment is made. For loan amounts **more than \$20,000** repayment will last 30 years, starting once the initial principal payment is made.

Federal Loan Alternatives

Loan program	Current Interest Rates	
PERKINS for Students	5% fixed	
STAFFORD for Students	6% fixed	Undergraduate subsidized
	6.8% fixed	Undergraduate unsubsidized & Graduate
PLUS for Parents and Graduate / Professional Students	8.5% fixed	Federal Family Education Loan
	7.9% fixed	Federal Direct Loan

You may qualify for Federal education loans.

For additional information, **contact your school's financial aid office or the Department of Education at:**

www.federalstudentaid.ed.gov

Next Steps

1. Find Out More About Other Loan Options.

Some schools have school-specific student loan benefits and terms not detailed on this form. Contact your school's financial aid office or visit the Department of Education's web site at federalstudentaid.ed.gov for more information about other loans.

2. To Apply for this Loan, Complete the Application and the School Certification Form.

You may get the certification form from your school's financial aid office. If you are approved for this loan, the loan terms will be available for 30 days (terms will not change during this period, except the variable interest rate may change based on adjustments to the index).

REFERENCE NOTES

Variable Interest Rate

- This loan has a variable interest rate, that is based on a publicly available index, the London Interbank Offered Rate (LIBOR). Your rate will be calculated each month by adding a margin between 3% and 13% to the LIBOR.

More information about loan eligibility is available in your loan application and promissory note.

Eligibility Criteria

Borrower

- Must be enrolled at an eligible school at least half-time.
- Must be 18 years or older at the time of loan application.

Co-signers

- Not required, but rates are typically higher without a co-signer.
- Must be 18 years or older at the time of loan application.

BORROWER:
Christopher Smith Jr.
1492 Columbus Way
Plymouth, MA 02360

CREDITOR:
First ABC Bank
12345 1st St
Anytown, CA 93120

Loan Rates & Estimated Total Costs

Total Loan Amount

\$10,600.00

The total amount you are borrowing.

Interest Rate

7.375%

Your current interest rate.

Finance Charge

\$18,541.24

The estimated dollar amount the credit will cost you.

Total of Payments

\$ 28,541.24

The estimated amount you will have paid when you have made all payments.

ITEMIZATION OF AMOUNT FINANCED

Amount paid to you	\$0.00
Amount paid to others on your Behalf:	+ \$10,000
• Pennsylvania State University	
Total Amount Financed	= \$10,000
Initial finance charges (total)	+ \$600
• Origination Fee (\$300)	
• Loan Guarantee Fee (\$300)	
Total Loan Amount	= \$10,600

ABOUT YOUR INTEREST RATE

- **Your rate is variable.** This means that your actual rate varies with the market and could be lower or higher than the rate indicated on this form. The variable rate is calculated using a publicly available index. For more information on this rate, see reference notes.
- Your loan does not have a maximum rate.
- Your **Annual Percentage Rate (APR) is 8.23%**. The APR is typically different than the Interest Rate since it considers fees and then reflects the cost of your loan as a yearly rate. For more information about the APR, see reference notes.

FEES

- **Late Charge:** 5% of the amount of the past due payment, or \$25, whichever is greater.
- **Returned check charge:** up to \$25.
- **Fee upon entering repayment:** 3.5% of loan balance.

Estimated Repayment Schedule & Terms

20 YEAR LOAN TERM	MONTHLY PAYMENTS		
	at 7.375% the current interest rate of your loan	No Maximum Rate example at 21%	
Sep 1, 2009 - Oct 31, 2013 deferment period	No payment required (\$3,799.67 in interest will accrue during this time)	No payment required (interest will accrue during this time)	<p>◀ Though your loan does not have a maximum interest rate, an example rate of 21% has been used for comparative purposes.</p> <p>The estimated Total of Payments if your rate rises to 21% would be \$111,449.64. Your Total of Payments will be higher if rate increases above 21%.</p>
Nov 1, 2013 - Sep 30, 2033 239 monthly payments	\$118.93	\$464.31 (your payments will be higher if the rate increases above 21%)	
Oct 1, 2033 1 monthly payment	\$116.97	\$479.55 (your payments will be higher if the rate increases above 21%)	

Federal Loan Alternatives

Loan program	Current Interest Rates	
PERKINS for Students	5% fixed	
STAFFORD for Students	6% fixed	Undergraduate subsidized
	6.8% fixed	Undergraduate unsubsidized & Graduate
PLUS for Parents and Graduate / Professional Students	8.5% fixed	Federal Family Education Loan
	7.9% fixed	Federal Direct Loan

You may qualify for Federal education loans.

For additional information, contact your school's financial aid office or the Department of Education at: federalstudentaid.ed.gov

Next Steps & Terms of Acceptance

This offer is good until:

August 1, 2009

1. Find Out More About Other Loan Options.

Some schools have school-specific student loan benefits and terms not detailed on this form. Contact your school's financial aid office for more information.

2. You Have Until August 1, 2009 to Accept this Offer

The terms of this offer will not change with the following exceptions:

- the interest rate may vary with the market.
- the information on your application will be verified to ensure you meet the eligibility and legal requirements for this loan.
- your school will be asked to verify that you are eligible for the approved loan amount.

To Accept the Terms of this loan, contact us at

First ABC Bank,
12345 1st Street,
Anytown, CA 93120,
(800) 555 - 5555

REFERENCE NOTES

Variable Interest Rate:

- Your loan has a variable interest rate that is based on a publicly available index, the London Interbank Offered Rate (LIBOR), which is currently 4.375%. Your rate is calculated each month by adding a margin of 3% to the LIBOR.
- The interest rate may be higher or lower than your Annual Percentage Rate (APR) because the APR accounts for the Interest Rate and certain fees you must pay to obtain this loan, and whether you defer (postpone) payments while in school.
- The rate will not increase more than once a month, but there is no limit on the amount that the rate could increase at one time. Your loan has no maximum rate.
- Any increase will take the form of higher monthly payments.

Bankruptcy Limitations

- If you file for bankruptcy you may still be required to pay back this loan.

Repayment Options:

- Although you elected to postpone payments, you can still make payments during this time. You can also choose to change your deferment choice to: Pay Interest Only or Make Full Payments.

Prepayments:

- If you pay off early, you will not have to pay a penalty. You will not be entitled to a refund of part of the finance charge.

See your contract documents for any additional information about non-payment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

BORROWER:
Christopher Smith Jr.
1492 Columbus Way
Plymouth, MA 02360

CREDITOR:
First ABC Bank
12345 1st St
Anytown, CA 93120
(800) 555 - 5555

RIGHT TO CANCEL

You have a right to cancel this transaction, without penalty, by midnight on August 4, 2009. No funds will be disbursed to you or to your school until after this time. You may cancel by calling us at 800-555-5555.

Loan Rates & Estimated Total Costs

Total Loan Amount	Interest Rate	Finance Charge	Total of Payments
\$10,600.00	7.375%	\$18,541.24	\$ 28,541.24
The total amount you are borrowing.	Your current interest rate.	The estimated dollar amount the credit will cost you.	The estimated amount you will have paid when you have made all payments.

ITEMIZATION OF AMOUNT FINANCED

Amount paid to you	\$0.00
Amount paid to others on your Behalf:	+ \$10,000
• Pennsylvania State University	
Total Amount Financed	= \$10,000
Initial finance charges (total)	+ \$600
• Origination Fee (\$300)	
• Loan Guarantee Fee (\$300)	
Total Loan Amount	= \$10,600

ABOUT YOUR INTEREST RATE

- **Your rate is variable.** This means that your actual rate varies with the market and could be lower or higher than the rate indicated on this form. The variable rate is calculated using a publicly available index. For more information on this rate, see reference notes.
- Your loan does not have a maximum rate.
- Your **Annual Percentage Rate (APR) is 8.23%**. The APR is typically different than the Interest Rate since it considers fees and then reflects the cost of your loan as a yearly rate. For more information about the APR, see reference notes.

FEES

- **Late Charge:** 5% of the amount of the past due payment, or \$25, whichever is greater.
- **Returned check charge:** up to \$25.
- **Fee upon entering repayment:** 3.5% of loan balance.

Estimated Repayment Schedule & Terms

20 YEAR LOAN TERM	MONTHLY PAYMENTS	
	at 7.375% the current interest rate of your loan	No Maximum Rate example at 21%
Sep 1, 2009 - Oct 31, 2013 deferment period	No payment required (\$3,799.67 in interest will accrue during this time)	No payment required (interest will accrue during this time)
Nov 1, 2013 - Sep 30, 2033 239 monthly payments	\$118.93	\$464.31 (your payments will be higher if the rate increases above 21%)
Oct 1, 2033 1 monthly payment	\$116.97	\$479.55 (your payments will be higher if the rate increases above 21%)

◀ Though your loan does not have a maximum interest rate, an example rate of 21% has been used for comparative purposes.

The estimated **Total of Payments** if your rate rises to 21% would be **\$111,449.64**. Your Total of Payments will be higher if rate increases above 21%.

REFERENCE NOTES**Variable Interest Rate:**

- Your loan has a variable interest rate that is based on a publicly available index, the London Interbank Offered Rate (LIBOR), which is currently 4.375%. Your rate is calculated each month by adding a margin of 3% to the LIBOR.
- The interest rate may be higher or lower than your Annual Percentage Rate (APR) because the APR accounts for the Interest Rate and certain fees you must pay to obtain this loan, and whether you defer (postpone) payments while in school.
- The rate will not increase more than once a month, but there is no limit on the amount that the rate could increase at one time. Your loan has no maximum rate.
- Any increase will take the form of higher monthly payments.

Bankruptcy Limitations

- If you file for bankruptcy you may still be required to pay back this loan.

Repayment Options:

- Although you elected to postpone payments, you can still make payments during this time. You can also choose to change your deferment choice to: Pay Interest Only or Make Full Payments.

Prepayments:

- If you pay off early, you will not have to pay a penalty. You will not be entitled to a refund of part of the finance charge.

See your contract documents for any additional information about non-payment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

5.4. In-Depth Interview Recruiting Screener

**Consumer Research and Testing for Private Education Loans
In-Depth Interview Recruiting Screener
UPDATED: 05/20/09**

INSTRUCTIONS

Locations, Dates and Times:

Bethesda, MD: June 17th and 18th.

Recruit 14 for 10 to show per city as follows:

- Bethesda, MD: 5 slots per day, 1.5 hours each from 2pm-9:30pm. Recruit 2 floaters per day.

Key Quotas (per city, out of 14 recruits):

- 7 parents and 7 college students
- 7 with private education loans, 7 who anticipate a need for private loans during their (child's) education
 - Recruit 2 students enrolled in proprietary or trade schools
- Minimum of 5 private colleges; minimum of 5 public colleges
 - No more than 4 from any one college
- Minimum of 4 independent students; minimum of 8 dependent students
- Minimum of 10 full-time students
- Minimum of 4 grad students; minimum of 4 undergrads
- Parents only: Minimum of 2 with incomes of <\$50k
- Minimum of 5 females and 5 males

IMPORTANT: During recruiting, fax or scan and email screeners to 703.757.5208 each day for review by the Rockbridge project manager.

If you run into problems meeting the specs, please call us so we can discuss a solution. We recommend you hold onto screeners of terminates in case we need to call them back and invite them. If you have questions, please call Robert DeVall at 703.757.5213 ext.24, rdevall@rockresearch.com.

SCREENER

INTERVIEWER INITIAL: _____

Hello, may I speak to _____ [USE FULL NAME FROM CLIENT LIST/DATABASE]. This is **(RECRUITER'S FULL NAME)** and I'm calling from _____, a local marketing research firm.

We are conducting research and would like to get your feedback. Let me assure you that we are not trying to sell you anything, and all of the information gathered will be confidential.

1. Do you or anyone in your household work... **[READ LIST, RECORD RESPONSE]?**

- 1 In a student lending organization **[TERMINATE]**
- 2 As a student aid administrator **[TERMINATE]**
- 3 DO NOT READ NONE OF THE ABOVE **[CONTINUE]**

1a. Are there any individuals attending college in your household?

- 1 Yes
- 2 No **[TERMINATE]**

2. What is your relationship to this individual?

- 1 Parent or Legal Guardian **[RECRUIT 7]**
- 2 Self **[RECRUIT 7]**
- 3 Brother/Sister **[ASK TO SPEAK TO PARENT/GUARDIAN/STUDENT]**
- 4 Other **[ASK TO SPEAK TO PARENT/GUARDIAN/STUDENT]**

2A. **[PARENTS ONLY:]** Do you have more than one child attending college?

- 1 Yes **[READ 2B]**
- 2 No **[SKIP TO Q3]**

2B. **[PARENTS WHO HAVE MORE THAN ONE COLLEGE STUDENT ONLY:]** For the rest of my questions, please refer to your oldest child in college. What is this child's first name?

INTERVIEWER: IF THIS CHILD DOES NOT QUALIFY THE PARENT, RE-SCREEN ASKING ABOUT ANOTHER CHILD THE PARENT HAS. BE SURE TO RECORD FIRST NAME OF QUALIFYING CHILD IN Q2B.

3. **([PARENT:]Is the student)/([STUDENT:]Are you)** currently enrolled in a college or university?

- 1 Yes
- 2 No **[TERMINATE]**

4. ([PARENT:]Is the student)/([STUDENT:]Are you) a U.S. citizen or permanent resident?

- 1 Yes
2 No [TERMINATE]

*****IMPORTANT*****

RECRUITER: BEFORE GOING FORWARD DETERMINE IF RESPONDENT IS COMFORTABLE SPEAKING AND UNDERSTANDS ENGLISH WELL, IF NOT – PLEASE TERMINATE]

5. What type of school ([PARENT:]does the student) /([STUDENT:]do you) attend? **RECORD ALL THAT APPLY**

- 1 2-year community college [TERMINATE]
2 4-year college or university as an undergraduate student [MINIMUM OF 4]
3 Graduate or Professional school [MINIMUM OF 4]
4 Proprietary or for-profit school (e.g., University of Phoenix, Strayer University, ITT Technical Institute, etc.) [RECRUIT 2 STUDENTS]
5 Other: please specify _____ [TERMINATE]

[MUST BE 2, 3 OR 4 TO CONTINUE; OTHERWISE TERMINATE].

6. ([PARENT:]Does the student)/([STUDENT:]Do you) attend a public or private college or university?

- 1 Public [MINIMUM OF 5]
2 Private [MINIMUM OF 5]
3 [DO NOT READ] NOT SURE [TERMINATE]

6A. What is the name of the college or university? **[NO MORE THAN 4 FROM SAME SCHOOL]**

7. ([PARENT:]Does the student)/([STUDENT:]Do you) attend college...?

- 1 Full-time [MINIMUM OF 10]
2 or Part-time
3 [DO NOT READ] NOT SURE [TERMINATE]

8. Which of the following best describes your level of involvement in the financial planning for ([PARENT:]your student's/[STUDENT:]your) college education?

- 1 I am the person primarily responsible for figuring out how to pay for college
2 I am one of the people primarily responsible for figuring out how to pay for college
3 I am somewhat involved in figuring out how to pay for college
4 I am not involved in figuring out how to pay for college **[TERMINATE IF PARENT; TERMINATE IF STUDENT IS NOT PART OF PARENT-STUDENT PAIRING (SAME FAMILY)]**
5 Not sure [TERMINATE]

9. Please think about the expected total higher education costs not covered by grants or scholarships, including tuition, room, board, fees, books, transportation, etc. for ([PARENT:]this child's)/([STUDENT:]your) education. Approximately, what percentage will eventually be paid by parents, student, student's spouse, student's employer, and other family members?

- a. _____ % paid by parents
 b. _____ % paid by student
 c. _____ % paid by student's spouse
 d. _____ % paid by student's employer
 e. _____ % paid by other family members

_____ [SUM MUST EQUAL 100%]

[IF A AND E = 0 (ZERO), QUALIFY FOR INDEPENDENT STUDENT; MINIMUM OF 4 INDEPENDENT STUDENTS]

[IF A AND/OR E ARE GREATER THAN 0, QUALIFY AS DEPENDENT STUDENT; MINIMUM OF 8 DEPENDENT STUDENTS]

10. Which types of education loans, if any, ([PARENT:]does your student)/([STUDENT:]do you) have?
RECORD ALL THAT APPLY.

- 1 Federal student loan, like a Stafford loan, which is a government backed education loan
 2 Student Private education loan, a non-government loan offered by a financial institution, like a bank or credit union **[MINIMUM OF 7; SKIP TO Q12]**
 3 Not sure **[TERMINATE]**
 4 None of the above

11. **[ASK ONLY IF Q10 NOT EQUAL TO 2 (NO PRIVATE EDUCATION LOANS)]** Do you think you will need to apply for a private education loan, or a non-government loan offered by a financial institution, like a bank or credit union, to help pay for college?

- 1 Yes **[MINIMUM OF 7]**
 2 No **[TERMINATE]**
 3 Don't know **[TERMINATE]**

12. How much do you think you might need to borrow in total, across all loan types, by the time ([PARENT:]your child)/([STUDENT:]you) completes their higher education?

- 1 Less than \$10,000 **[TERMINATE IF NO PRIVATE LOANS IN Q10]**
 2 \$10,000 to less than \$25,000 **[TERMINATE IF NO PRIVATE LOANS IN Q10]**
 3 \$25,000 to less than \$50,000
 4 \$50,000 to less than \$75,000
 5 \$75,000 to less than \$100,000
 6 \$100,000 or more
 7 I don't know

13. **[DO NOT ASK]** Record gender.

- | | | |
|---|--------|-----------------------|
| 1 | Male | [MINIMUM OF 5] |
| 2 | Female | [MINIMUM OF 5] |

14. **[PARENTS ONLY:]** What is your current total annual household income, before taxes?

- | | |
|---|----------------------------------|
| 1 | Under \$25,000 |
| 2 | \$25,000 to less than \$50,000 |
| 3 | \$50,000 to less than \$75,000 |
| 4 | \$75,000 to less than \$100,000 |
| 5 | \$100,000 to less than \$150,000 |
| 6 | \$150,000 to less than \$200,000 |
| 7 | \$200,000 or more |

[MINIMUM OF 2 WITH LESS THAN \$50,000]

15. What is the highest degree (**[PARENT:]**your student)/(**[STUDENT:]**you) anticipate(s) completing?

- | | |
|---|-------------|
| 1 | Certificate |
| 2 | Associates |
| 3 | Bachelors |
| 4 | Masters |
| 5 | PhD |
| 6 | Other |

16. Based on (your student's)/(your) studies or intended studies, what is (**[PARENT:]**your student's)/(**[STUDENT:]**your) planned career path? (PROBE IF NECESSARY: What type of job (does your student)/(do you) plan to have when (**[PARENT:]**your student)/(**[STUDENT:]**you) leave(s) school?

17. What is your age? **[RECORD]**

_____ YEARS OLD

18. Have you attended a focus group or in-person market research interview in the past 6 months?

- | | |
|---|-----|
| 1 | YES |
| 2 | NO |

19. **[ASK IF Q18 = 1]** How many have you attended in the past 6 months?

_____ **[IF 3 OR GREATER, TERMINATE]**

20. **[ASK IF Q18 = 1]** Were any on a financial services topic?

- 1 YES **[TERMINATE]**
- 2 NO

21. On (day/time), we will be holding market research individual interviews with **([PARENT:]**parents of college students)**([STUDENT:]**college students) like you to talk about your needs in planning and paying for college, and we would like to invite you to participate.

The interview will be held at our facility in (Fairfax / Baltimore). The session will last approximately 90 minutes. In appreciation of your time, you will be given \$100 at the end of the interview.

I want to stress that the purpose of the interview is strictly for market research. We are not selling anything. Our purpose is to write a report on how to better meet the needs of families in planning and paying for college. Would you like to participate?

- 1 Yes **[SCHEDULE DAY/TIME, GET NAME AND CONTACT INFORMATION & SKIP TO Q23]**
- 2 No

22. **[ASK IF Q21=1]** I'm sorry to hear that. Why is it you won't be able to come?
[PROBE FOR REASON AND RECORD. MAKE SURE RESPONDENT UNDERSTANDS WE ARE NOT SELLING ANYTHING.]

REASON: _____

[SKIP TO THANK YOU]

23. **[ASK IF Q10=2, OTHERWISE SKIP TO THANK YOU]** We would also like to ask you to bring in the loan documents of the most recent Private Educational Loans **([PARENT:]**your student)**([STUDENT:]**you) got, if they are handy. Please be assured that everything discussed during the interview is strictly confidential and the documents will only be used to discuss your previous experience with the private loan process. Do you think you'll be able to bring those in?

- 1 Yes
- 2 No

RECRUIT INFORMATION:

PARTICIPANT	RECRUITED	CONFIRMED
Name:	By:	By:
Phone: (Home): (Work): (Cell): Email:		

Thank you for your time!

RECORD AFTER SCREENER IS COMPLETE (FOR USE BY MODERATOR DURING IDI):

PARENT

Name of Qualifying Child (Q2B)	Type of School (Q5) CIRCLE ONE:	School Status (Q6) CIRCLE ONE:	Private Loan Status (Q10) CIRCLE ONE:	Total Amt Will Borrow (Q12)	Highest Degree Anticipated (Q15)	Career Path (Q16)
	4-yr Undergrad Graduate Proprietary	Public Private	Have Private Loans Do Not		Associates Bachelors Masters PhD	

STUDENT

Type of School (Q5) CIRCLE ONE:	School Status (Q6) CIRCLE ONE:	Type of Student (Q9) CIRCLE ONE:	Private Loan Status (Q10) CIRCLE ONE:	Total Amt Will Borrow (Q12)	Highest Degree Anticipated (Q15)	Career Path (Q16)
4-yr Undergrad Graduate Proprietary	Public Private	Independent Dependent	Have Private Loans Do Not		Associates Bachelors Masters PhD	

5.5. In-Depth Interview Intake Survey

Consumer Research and Testing for Private Education Loans In-Depth Interview Intake Survey

Students/Graduates

Respondent Number (facility write-in): _____

Instructions: Thank you for participating in this important study on education loans. This study will be valuable in creating better information to help families understand the higher education loans they are considering. Before we interview you, we ask that you answer a few questions that will help our researcher understand your background.

All of the information is for research purposes and will be kept strictly confidential.

1. Including you, how many children in your immediate family are: (Write in # below, counting yourself and siblings)

_____ College Bound High school Junior or Senior

_____ Currently enrolled in undergraduate college program

_____ Currently enrolled in a graduate or professional program

_____ Formerly attended college, but not currently enrolled

_____ Other

2. Are you currently enrolled in a college or proprietary school?

1 YES

2 NO – I HAVE GRADUATED

3 NO – I LEFT SCHOOL WITHOUT GRADUATING

3. IF STILL IN COLLEGE: When do you expect to graduate from this program?

1 Fall Semester 2009

2 Spring 2010

3 Fall Semester 2010

4 2011

5 2012

6 2013

7 2014

8 Other (Please indicate year) _____

4. IF STILL IN COLLEGE: What degree do you expect when you graduate?

- 1 Associate (2 year) degree
- 2 Bachelors (4 year) degree
- 3 Masters
- 4 Doctorate
- 5 Professional Degree: Please Specify_____
- 6 Certificate (post-four year degree)
- 7 Other: Please Specify_____

5. What is the highest degree that you now have?

- 1 Associate (2 year) degree
- 2 Bachelors (4 year) degree
- 3 Masters
- 4 Doctorate
- 5 Professional Degree: Please Specify_____
- 6 Certificate (post-four year degree)
- 7 Other degree/certificate: Please Specify_____
- 8 No degree or certificate

6. Do you plan on continuing your higher education in the next few years after graduation?

- 1 YES
- 2 NO

7. Do you have any private higher education loans? (By private, we are referring to loans that are specifically intended for your higher education and are not part of a Federal loan program through the Department of Education).

- 1 YES
- 2 NO

8. IF YOU HAVE PRIVATE LOANS: About how many private education loans have you taken out so far? (Your best guess is fine)

[Note: if you have consolidated these into a single loan, please count the number before consolidation.]

_____ LOANS

9. IF YOU HAVE PRIVATE LOANS: With whom do you currently have private education loans?

10. IF YOU HAVE PRIVATE LOANS: Approximately how much is the total balance for the private education loans you have taken out so far? (Your best guess is fine)

- 1 Under \$10,000
- 2 \$10,000 - \$24,999
- 3 \$25,000 - \$49,999
- 4 \$50,000 - \$74,999
- 5 \$75,000 - \$99,999
- 6 \$100,000 or more

11. IF YOU HAVE PRIVATE LOANS: What share of these loans is co-signed by your parents?

- 1 All are cosigned
- 2 Some are, some are not
- 3 None – all are in my name

12. IF YOU HAVE PRIVATE LOANS: When was the last time you took out a private education loan?

- 1 Fall Semester 2009
- 2 Spring Semester 2009
- 3 Last year
- 4 Two years ago
- 5 More than 2 years ago

13. IF YOU HAVE PRIVATE LOANS: Have you consolidated any of your private education loans?

- 1 Yes
- 2 No

Thank you!

Parents

Respondent Number (facility write-in): _____

Instructions: Thank you for participating in this important study on education loans. This study will be valuable in creating better information to help families understand the higher education loans they are considering. Before we interview you, we ask that you answer a few questions that will help our researcher understand your background.

All of the information is for research purposes and will be kept strictly confidential.

1. How many of your children are: (Write in # below for all children over which you have guardianship or who you assist financially)

_____ College Bound High school Junior or Senior
_____ Currently enrolled in undergraduate college program
_____ Currently enrolled in a graduate or professional program
_____ Formerly attended college, but not currently enrolled
_____ Other

The following questions are about a specific child who we identified when we invited you to this interview.

His/her name is: _____
IF BLANK, PLEASE ASK THE HOST FOR HELP.

2. Is this child currently enrolled in a college or proprietary school?
- 1 YES
 - 2 NO – THE CHILD HAS GRADUATED
 - 3 NO – THE CHILD LEFT COLLEGE WITHOUT GRADUATING

3. IF YOUR CHILD IS STILL IN COLLEGE: When do you expect your son or daughter to graduate from this program?
- 1 Fall Semester 2009
 - 2 Spring 2010
 - 3 Fall Semester 2010
 - 4 2011
 - 5 2012
 - 6 2013
 - 7 2014
 - 8 Other (Please indicate year) _____
4. IF YOUR CHILD IS STILL IN COLLEGE: What degree do you expect your daughter or son to have upon graduation?
- 1 Associate (2 year) degree
 - 2 Bachelors (4 year) degree
 - 3 Masters
 - 4 Doctorate
 - 5 Professional Degree: Please Specify _____
 - 6 Certificate (post-four year degree)
 - 7 Other: Please Specify _____
5. What is the highest degree that this child now has?
- 1 Associate (2 year) degree
 - 2 Bachelors (4 year) degree
 - 3 Masters
 - 4 Doctorate
 - 5 Professional Degree: Please Specify _____
 - 6 Certificate (post-four year degree)
 - 7 Other: Please Specify _____
 - 8 No degree or certificate yet
6. Does your son or daughter plan on continuing their higher education in the next year or two after graduation?
- 1 YES
 - 2 NO

7. Does your child have any private higher education loans? (By private, we are referring to loans that are specifically intended for higher education and are not part of a Federal loan program through the Department of Education).
- 1 YES
2 NO
8. IF CHILD HAS PRIVATE LOANS: About how many private education loans has your daughter or son taken out so far? (Your best guess is fine)
[Note: if your child has consolidated these into a single loan, please count the number before consolidation.]
- _____ LOANS
9. IF YOUR CHILD HAS PRIVATE LOANS: With whom does your child currently have private education loans?
- _____

10. IF YOUR CHILD HAS PRIVATE LOANS: Approximately how much is the total balance of the private education loans your child has taken out for their education? (Your best guess is fine)
- 1 Under \$10,000
2 \$10,000 - \$24,999
3 \$25,000 - \$49,999
4 \$50,000 - \$74,999
5 \$75,000 - \$99,999
6 \$100,000 or more
11. IF YOUR CHILD HAS PRIVATE LOANS: What share of these loans is co-signed by you and/or the other parent?
- 1 All are co-signed by a parent
2 Some are, some are not
3 None – all are in the student's name

12. IF YOUR CHILD HAS PRIVATE LOANS: When was the last time your child took out a private education loan?
- 1 Fall Semester 2009
 - 2 Spring Semester 2009
 - 3 Last year
 - 4 Two years ago
 - 5 More than 2 years ago
13. IF YOUR CHILD HAS PRIVATE LOANS: Has your child consolidated any of the private education loans?
- 1 Yes
 - 2 No
14. Do you have any other children with private higher education loans?
- 1 Yes
 - 2 No

Thank you!

5.6. In-Depth Interview Discussion Guide

PRIVATE EDUCATION LOAN DISCLOSURE STUDY In-depth Interview Guide

Interviewer Initials:

Date and Time:

Respondent Name:

I. WARM-UP (2 minutes)

- My name is _____, and I am with a market research firm that studies how consumers make decisions for financial services. We are working with a federal agency on the topic of higher education finance and want to get your feedback on ways of providing better information to consumers on private education loans.
- You have been invited here because (you/your child) recently completed a private education loan transaction or may consider it in the future. I would like to get your views on the process of paying for college.
- Please be frank – I am a researcher with no vested interests. There are not right or wrong answers, just your opinions.
- Note the one-way mirror. We are also audio-taping and video taping, which is standard research practice.
- Everything is confidential and for research purposes only. We put the results into a report that does not identify individuals by name.
- Questions?

II. INTRO & DECISION PROCESS (18 minutes)

First, I want to review your/your child's education financing situation and talk about your future plans for paying for college/graduate school.

[REVIEW SCREENER AND INTAKE SURVEY HIGHLIGHTS WITH RESPONDENT; IF PARENT, IDENTIFY CHILD COVERED BY INTERVIEW]

1. How did you (and your family) make the decision to use the funding sources that you've relied on until now?
 - a. What role did you play vs. your child/parents in deciding how to pay for college?
 - b. In the future, what types of funding do you think you will use to pay for college? [PROBE: parents/family, self/spouse, work, loans (federal/private), grants/scholarships]
2. As far as you know, what types of *loans* are available to students and parents to pay for higher education? PROBE: Any others you know of?
 - a. Would you consider taking any of those before another? Why or why not? [PROBE FOR AWARENESS OF FEDERAL VERSUS PRIVATE SOURCES] NOTE: TRADE SCHOOL STUDENTS DO NOT QUALIFY FOR FEDERAL LOANS; DO NOT PROBE ON FEDERAL LOANS WITH THEM.

ASK 3 THRU 9 IF HAVE A PRIVATE EDUCATION LOAN:

3. How did you/your family first find out that a Private Education Loan was a funding option?
 - a. What prompted you to consider getting a private education loan?
 - b. What do you see as the advantages and disadvantages of private loan versus other types of loans?
4. What sources of information did you rely on to learn about private loan options? PROBE: financial aid office, solicitations by lender, web search
5. How many lenders did you consider?
 - a. Why did you consider that number/just one?
 - b. What sources of information did you use to evaluate the loan(s)? PROBE: Sources provided by lender versus other sources
 - c. IF MORE THAN ONE LOAN OPTION CONSIDERED: How did you decide which loan was best, that is, what criteria did you use to compare them?
 - d. Do you recall seeing disclosures that were mandated by law, such as a Truth In Lending Act disclosure? What were they?
 - i. How useful were these? Why?

6. Who was involved in the process of selecting the private loan(s)? PROBE FOR PARENT VERSUS STUDENT
 - a. Who helped gather information?
 - b. Who helped make the decision?
7. Where and how did you apply for the private education loan? PROBE FOR VENUES AND USE OF WEB/PAPER.
8. If you (your child/your family) were applying for a new private education loan, what, if anything, would you do differently?
9. Were there any surprises or problems in the process? What were they?

ASK 10 THRU 14 IF DO NOT HAVE A PRIVATE EDUCATION LOAN

10. Suppose you needed a private education loan. What sources of information did you think you would rely on to learn about private loan options? PROBE: financial aid office, solicitations by lender, web search
11. How many lenders did you think you would consider?
 - a. Why would you consider that number/just one?
 - b. What sources of information would you use to evaluate the loan(s)? PROBE: Sources provided by lender versus other sources
 - c. If you had multiple options to consider, how would you decide which was best, that is, what criteria would you use to compare them?
12. Who would be involved in the process? PROBE FOR PARENT VERSUS STUDENT
 - a. Who would help gather information?
 - b. Who would make the decision?
13. Where and how would you apply for the private education loan? PROBE FOR VENUES AND USE OF WEB/PAPER.
14. What do think are the advantages and disadvantages of a private education loan over other types of loans?

III. USABILITY TEST & FORM EVALUATION (60 MINUTES)

We have talked in detail about the process you went through/would expect to go through to get a private education loan for your/your child's education. We are now going to review documents or forms with information that you might receive in that process.

I am going to show you a set of forms and ask you a few questions about them. As you review them please tell me what your impression is of each form and what information you are seeing in each. *I am very interested in what you are thinking as you review the forms, so I am counting on you to express your thoughts out loud.*

In this interview, I will be showing you three sets of forms: one for when you apply for a private education loan, one for when you are approved for a private education loan, and one for when you agree to take the loan.

[BEGIN WITH THE APPLICATION FORM—SHOW VERSION WITH 25% MAX]

15. Here is the first form I'd like you to review. Pretend you are considering applying for a private education loan, and this is what the lender provided you, with a copy of an application. I'll let you look it over for a while but also talk to me about what you are seeing on the form and what you think when you see it. **[LET RESPONDENT REVIEW AND TALK ALOUD]**

- a. Can you tell what next steps you need to do?
- b. How much of the form and which parts would you read in real life if you were considering a private loan?

16. Before we move on, I want you to tell me what you find useful or not useful about the form in terms of making it easy for you to use to evaluate a private education loan. Look the form over, and as we discuss, please:

- a. **circle** the information that you find useful or you think is presented clearly
- b. **write question marks** next to information you have questions about or you think is confusing
- c. and **X** out information you think is unnecessary or redundant

[LET RESPONDENT REVIEW AND TALK ALOUD]

17. Now I have a few specific questions for you in regards to the form you are looking at.

a. Thinking about the information you would expect to see on a form like this:

i. Can you tell whether this is a good loan deal or not? CIRCLE BELOW.

1 – Yes 2 – No 3 – Not sure

1. How can you tell/why not?

ii. Can you tell how taking this loan will affect you/your child in the future?
CIRCLE BELOW.

1 – Yes 2 – No 3 – Not sure

1. How can you tell/why not?

iii. What important information is provided in this form?

iv. What important information, if any, is missing?

v. Do you think enough emphasis is put on the information that is relevant to you in making a decision to take this private education loan or not?

1. What helps this emphasis?

2. What could be improved?

b. How easy is this form to use in evaluating a private education loan?

i. Would you say: CIRCLE

1 – Very Easy to Use

2 – Somewhat Easy to Use

3 – Somewhat Hard to Use, or

4 – Very Hard to Use?

- c. What do you think about the organization of the form?
- i. Is the form: CIRCLE
 - 1 – Very Easy to Follow
 - 2 – Somewhat Easy to Follow
 - 3 – Somewhat Hard to Follow, or
 - 4 – Very Hard to Follow?
 - ii. What do you like about the organization?
 - iii. What changes in organization or format, if any, would make it easier to follow?
- d. How easy is it to read the information printed on this form?
- i. Is the form: CIRCLE
 - 1 – Very Easy to Read
 - 2 – Somewhat Easy to Read
 - 3 – Somewhat Hard to Read, or
 - 4 – Very Hard to Read?
 - ii. What makes it readable?
 - iii. What changes, if any, would make to make it easier to read? PROBE ON FONTS, FONT SIZES, GRAPHIC FEATURES.
- e. Is the language/terminology clear and understandable?
- i. Is the language: CIRCLE
 - 1 – Very Understandable
 - 2 – Somewhat Understandable
 - 3 – Somewhat Hard to Understand, or
 - 4 – Very Hard to Understand?
 - ii. What language do you find particularly useful?
 - iii. What language could be made clearer?
- f. Based on this information, what would you do next?
- i. **PROBE:** Apply for the loan? Go to other lenders to get this form with information for their loans to compare to this one? Look for alternatives to this type of loan?

18. Before I show you the next form, do you have any other comments or suggestions?

[APPROVAL FORM—SHOW VERSION WITH 25% MAX]

19. Here is the second form I'd like you to review. Pretend you were approved for a private education loan, and this is what the lender provided you to review before you agreed to take the loan. Assume that you chose to postpone payments while in school. I'll let you look it over for a while but also talk to me about what you are seeing on the form and what you think when you are seeing it. **[LET RESPONDENT REVIEW AND TALK ALOUD]**

- a. Can you tell what next steps you need to do?
- b. How much of the form and which parts would you read in real life if you were considering a private loan?

20. REPEAT

21. REPEAT

22. REPEAT

[CONSUMMATION FORM—SHOW VERSION WITH 25% MAX]

23. Here is the third and final form I'd like you to review. Pretend you agreed to take out the private education loan for which you were approved and then got this form with the closing materials. I'll let you look it over for a while but also talk to me about what you are seeing on the form and what you think when you are seeing it. **[LET RESPONDENT REVIEW AND TALK ALOUD]**

- a. Can you tell what next steps you need to do?
- b. How much of the form and which parts would you read in real life if you were considering a private loan?

24. REPEAT

25. REPEAT

26. REPEAT

27. **PUT ALL FORMS IN FRONT OF RESPONDENT.** Now we want to see how effective these forms are in conveying the information we think is important for you to know. I'm going to ask you to find and identify some information on the forms you just reviewed to tell me how easy that information was for you to find and understand and how relevant it would be in your decision making.

RATE INFORMATION

INFO ITEM	LOCATED?	How easy was that to locate on the forms?	How easy is it to understand what that information means?	How relevant would this be in your decision to get the loan or not?
Starting interest rates	1 YES 2 NO	1 Very Easy 2 Somewhat Easy 3 Somewhat Hard 4 Very Hard	1 Very Easy 2 Somewhat Easy 3 Somewhat Hard 4 Very Hard	1 Very 2 Somewhat 3 Slightly 4 Not at all
Interest Rate	1 YES 2 NO	1 Very Easy 2 Somewhat Easy 3 Somewhat Hard 4 Very Hard	1 Very Easy 2 Somewhat Easy 3 Somewhat Hard 4 Very Hard	1 Very 2 Somewhat 3 Slightly 4 Not at all
Annual Percentage Rate (or APR)	1 YES 2 NO	1 Very Easy 2 Somewhat Easy 3 Somewhat Hard 4 Very Hard	1 Very Easy 2 Somewhat Easy 3 Somewhat Hard 4 Very Hard	1 Very 2 Somewhat 3 Slightly 4 Not at all
Maximum Interest Rate	1 YES 2 NO	1 Very Easy 2 Somewhat Easy 3 Somewhat Hard 4 Very Hard	1 Very Easy 2 Somewhat Easy 3 Somewhat Hard 4 Very Hard	1 Very 2 Somewhat 3 Slightly 4 Not at all
Whether the interest rate is fixed or variable	1 YES 2 NO	1 Very Easy 2 Somewhat Easy 3 Somewhat Hard 4 Very Hard	1 Very Easy 2 Somewhat Easy 3 Somewhat Hard 4 Very Hard	1 Very 2 Somewhat 3 Slightly 4 Not at all

Follow-up Interest Rate Probes:

I just want to make sure some key information about the rates is clearly explained on the form. Can you tell me...

28. What does "Starting Interest Rates between 7.375% and 17.375%" mean to you?
29. How is the Interest Rate (7.375%) calculated?
30. How often is it re-calculated?
31. What does the maximum interest rate mean to you? (PROBE: What is the highest rate you could pay on this loan?)
32. What do you think is the difference between the Interest Rate and the APR? (7.375% vs. 7.059%)

And now, I just want to ask you the same questions about some of the other key information on the form to make sure it is clear.

OTHER KEY INFORMATION

INFO ITEM	LOCATED?	How easy was that to locate on the forms?	How easy is it to understand what that information means?	How relevant would this be in your decision to get the loan or not?
Cost of your loan	1 YES 2 NO	1 Very Easy 2 Somewhat Easy 3 Somewhat Hard 4 Very Hard	1 Very Easy 2 Somewhat Easy 3 Somewhat Hard 4 Very Hard	1 Very 2 Somewhat 3 Slightly 4 Not at all
Repayment Start Date	1 YES 2 NO	1 Very Easy 2 Somewhat Easy 3 Somewhat Hard 4 Very Hard	1 Very Easy 2 Somewhat Easy 3 Somewhat Hard 4 Very Hard	1 Very 2 Somewhat 3 Slightly 4 Not at all
Late payment penalties	1 YES 2 NO	1 Very Easy 2 Somewhat Easy 3 Somewhat Hard 4 Very Hard	1 Very Easy 2 Somewhat Easy 3 Somewhat Hard 4 Very Hard	1 Very 2 Somewhat 3 Slightly 4 Not at all
Deferment options	1 YES 2 NO	1 Very Easy 2 Somewhat Easy 3 Somewhat Hard 4 Very Hard	1 Very Easy 2 Somewhat Easy 3 Somewhat Hard 4 Very Hard	1 Very 2 Somewhat 3 Slightly 4 Not at all
The amount of your payments	1 YES 2 NO	1 Very Easy 2 Somewhat Easy 3 Somewhat Hard 4 Very Hard	1 Very Easy 2 Somewhat Easy 3 Somewhat Hard 4 Very Hard	1 Very 2 Somewhat 3 Slightly 4 Not at all
30 day period to accept terms	1 YES 2 NO	1 Very Easy 2 Somewhat Easy 3 Somewhat Hard 4 Very Hard	1 Very Easy 2 Somewhat Easy 3 Somewhat Hard 4 Very Hard	1 Very 2 Somewhat 3 Slightly 4 Not at all
3 day period to rescind	1 YES 2 NO	1 Very Easy 2 Somewhat Easy 3 Somewhat Hard 4 Very Hard	1 Very Easy 2 Somewhat Easy 3 Somewhat Hard 4 Very Hard	1 Very 2 Somewhat 3 Slightly 4 Not at all

IV. LOAN COMPARISON (5 MINUTES)**33. SHOW SHOPPING (APPROVAL) DISCLOSURE FORM FOR TWO LOANS:**

Now I am going to let you take a look at three forms in the same format but each of them has different loan terms on them. As you review them, I want you to talk to me about the information you're seeing and what might make one loan better or worse for you than another one and why. **[LET RESPONDENT REVIEW AND TALK ALOUD]**

- a. What are you considering as you evaluate the loans and terms?
- b. What information is here that is helping you compare the loans to each other?
 - i. What information do you wish was here to help you compare?
- c. Which of these loans is the best one in your opinion?
 - i. Why?

V. ALTERNATIVE MAXIMUM INTEREST RATE (5 MINUTES)

In some states, there is no maximum interest rate, so the forms would be worded a little differently. **[SHOW ALTERNATIVE APPLICATION, APPROVAL AND CONSUMMATION FORMS AND POINT OUT DIFFERENCES IN WORDING]**

34. Is this wording clear to you? (PROBE: What does it mean that there is "no maximum rate"? What is the 21%?) What, if anything, would make it clearer?
35. What questions, if any, does it raise for you?
35. How easy is it to locate on the forms? Why do you say that?

V. WRAP-UP

Those are all of the questions I have. Do you have any further comments you would like to make?

Thank You!