

Competitive PLUS Loan Auction Pilot Program

The College Cost Reduction and Access Act (CCRAA) added a new section to the Higher Education Act (HEA) directing the Secretary of Education to establish a pilot program for an auction in each state so lenders can bid for the rights to originate FFEL PLUS loans to new parent borrowers beginning July 1, 2009 – the Competitive PLUS Loan Auction Pilot Program. Under this program, an agreement is for a two-year period and the lenders bid must be equal to or less than the current special allowance rate. If no winning bids are made in a state, the U.S. Department of Education (ED) will designate a lender of last resort. There is no impact to Direct Loan Program schools since the Competitive PLUS Loan Auction Pilot Program is only for FFELP parent PLUS loans.

The Higher Education Opportunity Act (HEOA), enacted August 14, 2008, also included provisions regarding the Competitive PLUS Loan Auction Pilot Program. Dear Colleague Letter (DCL), GEN-08-12/FP-08-10, published December 31, 2008, provided additional details.

The chart summarizes the Competitive PLUS Loan Auction Pilot Program provisions found in the CCRAA and the HEOA.

Topic	College Cost Reduction and Access Act (CCRAA)	Higher Education Opportunity Act (HEOA)
	Summary	Summary
PLUS Loan Borrower	<p>The definition of a “new borrower” for purposes of the PLUS Loan auction is defined as a parent who has not previously borrowed a PLUS loan on behalf of a dependent student.</p> <p>A parent who has already borrowed a PLUS loan through a specific lender for a dependent student will be able to continue to use that lender after July 1, 2009.</p> <p>A parent who is borrowing a new PLUS loan for a new dependent student would be required to use the lender selected through the Competitive PLUS Loan Auction Pilot Program.</p> <p>The lender is based on the state where the dependent student is enrolled.</p> <p>Each state has the potential for two PLUS loan auction lenders. The parent PLUS loan borrower will be able to choose from one of the two PLUS loan auction lenders that wins the bid.</p> <p>For states that do not have two lenders that bid, the U.S. Department of Education (ED) will choose a lender-of-last-resort. In these states, a parent PLUS loan borrower would be limited to the lender-of-last-resort.</p>	<p>The PLUS loan borrower provisions found in the CCRAA were not impacted by the HEOA.</p>

Note: This chart is intended for informational purposes only. Refer to the College Cost Reduction and Access Act and the Higher Education Opportunity Act for specific information.

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Topic	College Cost Reduction and Access Act (CCRAA)	Higher Education Opportunity Act (HEOA)
	Summary	Summary
Lender Prequalification Process	The CCRAA establishes prequalification requirements for eligible lenders wanting to participate in the Competitive PLUS Loan Auction Pilot Program.	The HEOA adds requirements to the prequalification process.
	A set of borrower benefits and servicing requirements each lender shall meet to participate in the Competitive PLUS Loan Auction Pilot Program.	The U.S. Department of Education (ED) may enforce an eligible lender’s winning bid if it fails to enter into the agreement with ED, as required, or if it fails to comply with terms of the agreement.
	An assessment of each lender’s capacity, including capital capacity, to participate effectively in the Competitive PLUS Loan Auction Pilot Program.	ED may sanction the PLUS loan auction lender by assessing a penalty for any eligible PLUS loan that the lender fails to originate in accordance with the agreement, in the amount of the additional costs incurred by ED in obtaining another eligible lender to originate the PLUS loans, including the amount of any special allowance payments (SAP) made by ED. <ul style="list-style-type: none"> • ED will reduce the amount of any payments otherwise due to the lender by the amount of the penalty or by requesting that any other federal agency reduce the amount of any payments due to the lender from that agency in order to collect penalties. • ED may prohibit the bidding of such lender in other auctions and limit, suspend, or terminate the lender's participation in the FFELP. • ED may also take any other enforcement action authorized.
Lenders Winning the Bid	The winning bid for each state auction are the two bids with the lowest and second lowest proposed special allowance payment (SAP).	For exempt and lender-of-last-resort (LLR) claims, the PLUS loan auction lender insurance rate is 100 percent.
	Lenders submit sealed and confidential bids consisting of the amount of SAP that the lender proposes to accept from ED for the eligible PLUS loans the lender makes.	
	Lenders winning the bids will be the only FFEL lenders permitted to originate eligible parent PLUS loans for the cohort of dependent students at the school within the state until those students leave or graduate from those schools.	

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Lenders Winning the Bid	Lenders must agree to originate PLUS loans for parents of dependent students who qualify for PLUS loans and whose dependent students attend schools in the state and who elect to borrow from that lender.	There are no additional HEOA provisions impacting the lenders winning the Competitive PLUS Loan Auction Pilot Program bid.
	Winning lenders must also accept SAP based on the second lowest bid in the state's auction. There will be a SAP rate for PLUS loan auction lenders which may differ from the SAP rate for non-auction PLUS lenders.	
	Bids are kept confidential.	
	PLUS loan auction lender insurance rate for defaulted PLUS loans originated through the Competitive PLUS Loan Auction Pilot Program is 99 percent.	
	There are no lender origination fees charged on PLUS loan auction loans.	
Lender-of-Last-Resort (LLR)	If there are no winning bids in a state, a lender-of-last-resort (LLR) will be selected by ED from among the lenders indicating an interest to serve in this capacity.	The LLR provisions found in the CCRAA were not impacted by the HEOA.
	ED will take into account the lowest bid that was submitted in that state auction and the lowest bid submitted in a similar state in determining the amount of SAP paid to the LLR.	
	The special allowance amount paid to the LLR will be kept confidential	
Guarantor	The CCRAA did not have a provision identifying the guarantor for the PLUS loans made by the Competitive PLUS Loan Auction Pilot Program.	PLUS loans made by the Competitive PLUS Loan Auction Pilot Program will be guaranteed by a FFELP guaranty agency.

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Consolidation	Summary	Summary
	A PLUS loan auction lender may consolidate a borrower's PLUS loans made under this program under certain conditions.	The consolidation provisions found in the CCRAA were not impacted by the HEOA.
	The borrower must first notify the PLUS loan auction lender of his or her intent to consolidate with another lender and provide in that notice the terms and conditions of the consolidation loan being offered by the other lender.	
	Within ten days, the PLUS loan auction lender must agree to match the terms and conditions of the other lender's loans. Otherwise the borrower may consolidate with the other lender.	
	The PLUS loan auction lender may also consolidate the borrower's Direct Loan (DL) PLUS loan or other FFEL PLUS loans. For Direct PLUS loans, the PLUS loan auction lender must agree within ten days to match the terms and conditions available under the DL Consolidation program.	
	In the case of any other FFEL PLUS loan, the PLUS loan auction lender must agree within ten days to match the other lender's terms and conditions.	
	The SAP to the PLUS loan auction lender for FFEL Consolidation loans is the lesser of: <ul style="list-style-type: none"> • The weighted average of the SAP on the loans consolidated (excluding Direct PLUS loans) • The three-month average commercial paper rate plus 1.59 percent 	
A PLUS loan auction lender who consolidates a PLUS loan under this program is not subject to an interest payment rebate fee on the Consolidation loan.		

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Competitive PLUS Loan Auction Pilot Program Evaluation and Reports	<p>The CCRAA did not have a provision regarding the evaluation and reports for the PLUS loans made by the Competitive PLUS Loan Auction Pilot Program.</p>	<p>The Secretary of Education and the Secretary of the Treasury, in consultation with Office of Management and Budget (OMB), Congressional Budget Office (CBO) and Comptroller General, are required to conduct an evaluation of the Competitive PLUS Loan Auction Pilot Program to determine:</p> <ul style="list-style-type: none"> • the extent of federal savings generated under the PLUS loan auction compared to federal costs that would have incurred in operating the program in the absence of the auction • the number of lenders that participated and competition generated • the number and volume of loans made in each state • the effect of the transition and operation of the pilot in the ability of lenders and schools to originate parent PLUS loans smoothly and efficiently • the differential impact of the PLUS loan auction among the states (including between rural and non-rural) • the feasibility of using this mechanism to operate other Title IV Part B loan programs <p>The U.S. Department of Education and the Treasury must also submit the following reports to Congress by:</p> <ul style="list-style-type: none"> ○ September 1, 2010 - preliminary report ○ September 1, 2012 - interim report ○ September 1, 2013 - final report

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