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# NEEDED: A YEAR-END RESOURCE FOR FINANCIAL ASSISTANCE

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### *Introduction*

Eric Hoffer once wrote, "It is a paradox that in our time of drastic rapid change, when the future is in our midst devouring the present before our eyes, we have never been less certain about what is ahead of us." The future of financial aid in higher education is definitely obscured. At a time when words such as "funding freeze" or "financial aid roll back" and "escalating costs" are used simultaneously by financial aid officials, HEW personnel, and Congressmen alike, the future is indeed foreboding.

Given the prospect of fewer funds and more students with legitimate financial needs, college officials must choose to pursue one of two courses. Either they must increase their efforts to identify and develop additional resources of support, or restrict their support. The latter position which is currently being invoked on many campuses will only hurt the middle and growing lower classes of college students.

Most college students are enrolled for nine month terms, and if employment is available, they will work summers to subsidize their next nine month financial requirements. If summer employment is unavailable, many will attend summer school. Combine these with the year-round graduate and professional students who also have legitimate need of financial aid and the equation for awarding such aid increases. In addition, because of the prospect of reduced support for training grants and fellowships for graduate and professional students the year-end crunch could be disastrous, since the bulk of the legislated financial aid is directed to undergraduate financial needs.

To allow these vital graduate and professional programs to either slow down or halt will be disastrous. But what can be done? Assuming the reader's priorities are in accord with the writer's there may be hope if the program described below can be adopted and implemented at your college or university. It is not the only alternative, but we believe it is a positive step toward averting disaster.

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The "year-end period" alluded to above may vary from college to college. The year round programs such as those in two or three-year medical schools create a financial debt for students, which may begin as early as March and continue through August. "Financial crunch" is defined here as a situation in which the student has used all institutional, personal, and other financial resources available to him, yet requires additional financial assistance. In these cases, it is necessary to have a resource which can be used by financial aid administrators. Most administrators do not have such a reserve resource.

### *Purpose*

The purpose of this article is to describe in detail an operational program that satisfies the reserve resource requirement. The program at the Medical College of Ohio at Toledo is one of the first cooperative college, college foundation — commercial bank guaranteed loan programs. Interest in this program is increasing. Thus it was felt that it should be shared with all institutions as one small step that can help to avert the year-end financial aid crunch.

### *Essence of Cooperative Guaranteed Loan*

The aim of the cooperative guaranteed loan is to be a reserve resource rather than an integral part of the students' initial financial aid award. To be effective the loan should be employed after all other resources have been exhausted.

The cooperative guaranteed loan incorporates the same characteristics as the typical guaranteed loan program offered by other agencies. Namely, that one agency agrees to fund the loan and another agency guarantees repayment of the principal and interest in case of default or death of the student borrower.

Until recently it was accepted by college officials that large organizations, e.g. The State or Federal Government, or The American Medical Association, were capable of such guaranteed loans. College, university, and professional schools who have institutional foundations and also have good rapport with local banks can often inaugurate their own cooperative guaranteed loan program.

### *Development of a Cooperative Guaranteed Loan Program*

There are several steps that a college, or university, its foundation and the bank must mutually agree upon before such a program can begin. The following sequence outlines some suggested steps used by Medical College of Ohio at Toledo, the College's Foundation, and a local bank in the successful development of their guaranteed loan program.

Before any attempt is made to begin such a program, an analysis by the college or university of its year end or summer financial need situation must be completed. Also a comparison of the current problems associated with future growth, and any new programs that include additional students who may have financial need should be included in the analysis. The college then is in a position to approach its foundation and local banker(s) regarding the potential or real financial need, with the cooperative guaranteed loan as a realistic solution.

Assuming the problem can be documented, the following steps might be helpful:

1. Prepare the documentation of the problem in succinct form. In addition, prepare a description of the cooperative guaranteed loan program. Label the first as the problem, the second as the solution.

2. From our experience, a meeting between the financial aid administrator, the executive leader of student personnel, and the individual responsible for liaison with the school's foundation should be scheduled.

3. After convincing the school's foundation liaison person, request a meeting with that person and the foundation's scholarship and loan committee or its equivalent. Provide them with the same presentation.

4. If you are successful at this point, ask that the scholarship and loan committee identify a local bank that is interested in the welfare of the school. Attempt to focus on the President of the bank, for with his endorsement the bank should go along with inaugurating the program.

5. The meeting with the bank's president should include the financial aid administrator who prepared the analysis, a member of the foundation's scholarship and loan committee who heard the earlier presentation, and the school's liaison officer. Each person's role is self-evident. The financial aid officer can describe the problem, the foundation member can explain the foundation's financial interests, and the liaison person can provide the school's endorsement of the program.

6. Assuming step five is successful, an agreement and promissory note will need to be drafted. If this step is implemented be sure to request close communication between the financial aid officer, the school's fiscal officer, the appropriate bank official, and the foundation's representative.

7. The financial aid officer should develop an application acceptable to the school, foundation, and bank. The college's fiscal officer should review the agreement and promissory note. In addition, it should be checked by legal counsel. Once approved by the respective lawyers and officials, it should be forwarded to the foundation for their consideration.

8. The foundation's meeting should include the financial aid administrator who has worked on the program from inception, and the members of the scholarship and loan committee. The presentation should be made by the chairman of the committee. The financial aid administrator should be prepared to act as a resource person to answer technical questions.

9. If the foundation approves the program, there is still the administration of the program to be considered. In addition, a formal agreement must be signed by the appropriate officials of the foundation and the bank. Once that is accomplished, copies of the agreement and application can be printed and the cooperative guaranteed loan is ready for operation.

### *Loan Agreement*

Much reference has been made in this article regarding the cooperative guaranteed loan agreement. It is the writer's opinion that the loan agreement should be attached to the application in order to inform the student about the total agreement.

Cited below is the full agreement and loan application which can be used as a model.

I. *Purpose*

The Bank hereby agrees to make loans from time to time to eligible Medical College of Ohio at Toledo (hereinafter called "M.C.O.T.") students (hereinafter called "Student-Borrowers") which would supplement other existing educational financial assistance plans and would be subject to the terms and provisions as set forth hereinafter.

II. *Eligible Student-Borrowers*:

In order to be eligible for a loan under this agreement, the Student-Borrower must be:

A. 21 years of age or older.
B. An accredited student at M.C.O.T.
C. Unable to otherwise fund the educational costs.

III. *Borrowing Procedure*:

A. Foundation will, by means of an impartial committee of the Medical College, assume full responsibility for the screening of all Student-Borrowers as to:
   1. Amount of loan.
   2. Credit worthiness and financial needs of the Student-Borrower.
   3. Academic eligibility.

B. The Bank will not undertake any credit investigation of the Student-Borrower.

C. The Student-Borrower shall be presumed by the Bank to be eligible in all respects for loans under this program upon presentation by the Student-Borrower to a designated Bank Loan Officer (s) of a properly executed Foundation Loan Approval Form (Exhibit "A").

D. The Student-Borrower shall execute an Interim Demand Note (Exhibit "B") in the amount of the approved loan. The Interim Demand Note, by this Agreement, will be due and payable as of the Student-Borrower's projected date for completion of residency.

E. Interest only is to be payable quarterly at the rate and manner specified in Section IV of this Agreement.

F. Each Student-Borrower, otherwise eligible, may borrow up to and including $2,000 per academic year. However, the aggregate principal balance of all notes outstanding at one time to any one Student-Borrower shall not exceed $8,000.00.

G. Each Interim Demand Note and each note refinanced in accordance with Section I (2) shall refer to and shall be entitled to the benefits of the unlimited corporate guaranty of the Foundation.

H. *Financial Aid Exit Interview*:
   1. Approximately at the time of a Student-Borrower's graduation, or his leaving M.C.O.T. for any reason whatsoever, the Student-

Borrower will be required to have a "Financial Aid Exit Interview" with a designated member of the M.C.O.T. administrative staff.

2. The Student-Borrower will present, as soon as possible, a "Financial Aid Exit Interview" form (Exhibit "C") signed by a designated member of the M.C.O.T. administrative staff to a designated Bank loan officer.

I. *Repayment of Loans*:

Upon completion by the Student-Borrower of his residency requirements, the Student-Borrower may:

1. Repay to Bank the aggregate principal loan balance then owed by him, or

2. Refinance the aggregate principal loan balance by the execution of a new unsecured note which would provide for repayment by level monthly payments beginning not more than forty-five (45) days after the refinancing date and thereafter until the note is paid in full. However, in no event shall the refinancing note be for a longer term than 36 months.

IV. *Interest Rate*:

The interest rate to be charged on the unpaid principal balances outstanding from time to time on the Interim Demand Notes will be eight (8%) percent per annum. The interest charges on the Interim Demand Notes will be billed quarterly (March 31, June 30, September 30, and December 31) as follows:

A. The Student-Borrower shall be billed until the date his M.C.O.T. graduation, for accrued interest on his aggregated principal loan balance at the rate of three percent (3%) per annum.

B. The "Foundation", in care of the Treasurer, shall be billed for the accrued interest due on all of the unpaid principal balances of those loans to Student-Borrowers who have not graduated from or otherwise left M.C.O.T., at a rate of five percent (5%) per annum.

C. After each Student-Borrower's "Financial Aid Exit Interview", said Student-Borrower will be billed for the accrued interest on his entire unpaid principal loan balance at the rate of eight percent (8%) per annum.

V. *Prepayment*:

Any principal loan balances outstanding hereunder may be prepaid in full or in part from time to time without any penalty or fee.

VI. *Delinquencies*:

A. The Bank will exert its normal collection efforts for any past due interest and/or principal on any note covered by this Agreement. In the event any principal and/or interest payment due from any Student-Borrower is in excess of thirty (30) days delinquent, the Bank shall notify the designated financial affairs officer of M.C.O.T. of such delinquency.

B. The Bank shall not be obligated in any event to take any formal legal action for the collection of any delinquent principal and/or interest payment on any note covered by this Agreement.

VII. *Full Recourse*:

In any event, when any principal and/or interest payment is in excess of ninety (90) days past due, and at Bank's option, the "Foundation" will purchase that note or notes from the Bank and the Foundation shall pay any past due interest charges.

VIII. *General Provisions*:

A. This Agreement shall be binding upon and shall inure to the benefit of the Foundation and the Bank, and their respective successors and assigns, except that the Foundation may not assign or transfer its rights hereunder without the prior written consent of the Bank.

B. This Agreement and each Note and the rights and obligations of the parties hereunder and thereunder shall be governed by and construed and interpreted in accordance with the laws of the State of Ohio.

TABLE I

LOAN APPLICATION

MEDICAL COLLEGE OF OHIO AT TOLEDO, INC.

APPLICATION FOR GUARANTEED LOAN FOR:

STUDENT .............................. SOC. SEC. NO. ................

LOCAL ADDRESS ......................... TELEPHONE ...........

................................. ZIP ............. AGE ...........

YEAR IN SCHOOL (1) (2) (3) (4)

SPOUSE'S NAME ...............................................

SPOUSE'S EMPLOYMENT .........................................

PARENT'S NAME .......................... TELEPHONE ...........

PARENT'S ADDRESS ............................................

.............................................................

STUDENT'S PROJECTED M.C.O.T. GRADUATION ............, 19....

STUDENT'S PROJECTED DATE FOR COMPLETION OF RESIDENCY

.............., 19....

AMOUNT OF GUARANTEED LOAN REQUESTED $................

TOTAL LOANS UNDER THIS GUARANTEED LOAN PROGRAM

(INCLUDING PRESENT REQUEST) $........................

APPROVED BY ............................

TITLE ............................

DATE ............................

Although Medical College of Ohio at Toledo's program calls for a maximum of $2,000 per academic (12 month) year, the figure is not a magic number. The amount depends on the school's analysis of their individual situation and the foundation's resources for making quarterly interest payments on the student's notes during their enrollment at the school.

### *Loan Administration*

Administration must be handled at two locations: the school and the bank. The procedure for application, record-keeping, and receipt of the funds by the student is routine for MCOT as it will be for the other schools involved. The bank will probably ask the applicant to make a personal visit to become better acquainted with their other services. In regard to the Medical College of Ohio at Toledo and its graduating M.D.'s who remain in the Toledo area, by participating in the loan program the bank also improves the possibility of providing their services to these new graduates who plan to set up medical practice in Toledo. The same could be true for lawyers, dentists and college professors graduating at other schools.

The quarterly payment of interest by the student may prove to be a problem. In order to reduce costs to the Bank, it relies on the students to remember when the interest is due. Those students who are delinquent from time-to-time are reminded by the school's financial aid administrator rather than by the Bank.

Before graduation an exit interview is conducted by the financial aid administrator. The graduating student must make an appointment with the local bank in order to meet the requirements of the agreement. At this meeting the student presents documentation of the exit interview and relates his new address to the appropriate bank official. The aim here is to review the repayment procedure with that bank representative.

After graduation the local bank relies on the Medical College of Ohio at Toledo to keep them informed as to the graduate's location as he continues his post-graduate education. For it is after medical residency that arrangements to repay the loan are made.

In a non-medical setting the principles should be similar. A student going on to graduate school would not be required to repay this loan until he is a salaried professional. While he is in school the foundation would continue to subsidize his interest at the agreed upon rate.

### *Bank Benefits*

To assist the college representatives in selling a bank or banks on the benefits derived by the bank from the program, the following is suggested:

1. An 8% investment guaranteed by a strong organization, the Foundation.
2. Attracting new checking, savings, and loan customers.
3. Preparing the foundation or attracting future high quality customers by offering financing when they need it. In addition, future years should result in good loans, sizable deposits, and possible trust accounts.
4. The availability of credit extension for a socially desirable purpose. Graduates of a college or professional school who remain will provide top quality services for the community.

### *Conclusion*

It seems reasonable to conclude that this program can be used by many colleges, universities, or professional schools. Whatever the case, it is a program that is working at the Medical College of Ohio at Toledo as a year-end resource to assist needy medical students.

REFERENCES:

1. Hoffer, Eric *The Ordeal of Change,* Harper and Row, Publishers, 1963.