

## THE UNIVERSITY OF CALIFORNIA CODE OF CONDUCT IN REGARD TO PREFERRED LENDER ARRANGEMENTS

Each year the University of California, Office of the President (UCOP), in consultation with the UC campuses, solicits quotations on numerous private education loan products. Lenders are asked to report data on all approved loans as well as any borrower benefit discounts. It is assumed that not all borrowers will qualify for each type of discount, so a probability factor is applied for each benefit type. The loan products are then analyzed on a comparative basis to determine which loans have the lowest costs. The lenders selected through this evaluation process are placed on UC private loan lists in the order in which they are ranked by cost. Institutions that provide students with such private loan lists are said to have entered a “preferred lender arrangement” and by virtue of doing so are subject to many federal requirements that include having a code of conduct published prominently on the institution’s Web site.

This code of conduct is designed to prohibit a conflict of interest for all UC employees and agents of the UC system that have responsibilities with respect to private education loans and all such employees must be annually informed of the provisions of this code of conduct. The requirements contained herein augment the requirements outlined in UC’s Business and Finance Bulletin G-39, Conflict of Interest Policy and Compendium of Specialized University Policies Guidelines, and Regulations related to Conflict of Interest. This document serves as the “Code of Conduct” portion of the University of California Policy on Education Loan Practices.

All references to “UC” to “UC employees” and to “UC campuses” apply to the University as a whole, to individual campuses and departments, and to officially recognized alumni associations. All references to “lenders” apply to entities, other than the University and public agencies, that provide education loans to UC students. Unless otherwise noted, references to “lenders” also include loan service providers.

To avoid any conflict of interest, the following conduct is hereby **prohibited**:

1. UC campuses must not enter into any *revenue-sharing arrangement* with any lender. For purposes of this statement, the term *revenue-sharing arrangement* means an arrangement between UC and a lender under which a lender provides a private education loan to students attending a UC campus and UC recommends the lender or their loan products and in exchange, the lender pays a fee or provides other material benefits, including revenue or profit sharing, to the institution.
2. UC employees and agents of the UC system who are employed in the financial aid office or otherwise have responsibilities with respect to private education loans, must not solicit or accept any *gift* from a lender or servicer of the Federal Family Education Loan Program (FFELP) loans or private education loans. The term *gift* means any gratuity, favor, discount, entertainment, hospitality, loan, or other item having more than a nominal value. The term includes a gift of services, transportation, lodging, or meals, whether provided in kind, by purchase of a ticket, payment in advance, or

reimbursement (except for reasonable expenses as specified in paragraph 11 in this code of conduct) after the expense has been incurred. **The term *gift* does not include any of the following:**

- a. Standard material, activities, or programs on issues related to a loan, default aversion, default prevention, or financial literacy, such as a brochure, a workshop, or training.
  - b. Food, refreshments, training, or informational material furnished to a UC employee or agent of the UC system as an integral part of a training session that is designed to improve the service of a lender, servicer of FFEL Program loans or private education loans to the institution, if such training contributes to the professional development of the UC employee or agent of the UC system. Please note, however, that any UC employee required to file Form 700 under the Public Records Act (PRA), is limited to \$420 per year in gifts that may include food from a reportable source.
  - c. Favorable terms, conditions, and borrower benefits on a private education loan provided to a student employed by the institution if such terms, conditions, or benefits are comparable to those provided to all students of the institution.
  - d. Entrance and exit counseling services provided to borrowers to meet the institution's responsibilities for entrance and exit counseling as long as the institution's staff are in control of the counseling (whether in person or via electronic capabilities) and such counseling does not promote the products or services of any specific lender.
  - e. Philanthropic contributions to an institution from a lender, servicer of FFEL Program loans or private education loans that are unrelated to private education loans. Also, any contribution from any lender or servicer that is not made in exchange for any advantage related to private education loans. For example, a UC campus can utilize third-party products that support private loan application, origination and disbursement processing (e.g. ELMNet, OpenNet, ScholarNet and the National Disbursement Network). These products may be made available at no charge to UC, gifted or provided at below-market cost, as long as the evaluation and selection process serves the best interests of the borrowers, and no advantage is given to the third-party entity that provides the product(s).
3. A gift to a family member of a UC employee or agent of the UC system, or to any other individual based on that individual's relationship with the agent, is considered a gift to the agent if:
- a. The gift is given with the knowledge and acquiescence of the UC employee or agent of the UC system, and
  - b. The UC employee or agent of the UC system has reason to believe the gift was given because of the official position of the agent.
4. A UC employee or agent of the UC system who is employed in the financial aid office of the institution or who otherwise has responsibilities with respect to private education loans must not accept from any lender or affiliate of any lender any fee, payment, or other financial benefit (including the opportunity to purchase stock) as compensation for

any type of consulting arrangement or other contract to provide services to a lender or on behalf of a lender relating to private education loans. **This does not prohibit:**

- a. A UC employee or agent of the UC system who is not employed in the institution's financial aid office and who does not otherwise have responsibilities with respect to private education loans from performing paid or unpaid service on a board of directors of a lender, or servicer of education loans.
  - b. A UC employee or agent of the UC system who is not employed in the institution's financial aid office but who has responsibility with respect to private education loans from performing paid or unpaid service on a board of directors of a lender, servicer of FFEL Program loans or private education loans, provided that the individual recuse himself or herself from participating in any decision of said board regarding FFEL Program loans or private education loans at UC.
  - c. An officer, employee, or contractor of a lender or servicer of FFEL Program loans or private education loans from serving on any board of directors within the UC System or UC Alumni Associations, provided that the individual recuse himself or herself from any decision regarding FFEL Program loans or private education loans at UC.
5. A UC employee may not direct a borrower to a particular lender by assigning a first-time borrower, through award packaging or other methods, to a particular lender or loan product.
  6. No individual or UC campus may promote or appear to promote any loan product or lender that has not been selected for inclusion on a UC private loan list. However, exceptions to this prohibition would be permissible when a loan program, not included on a UC private loan list, has a unique structure such that it is only available to a limited segment of the student population that is not served by the lenders on a UC private loan list. For example, if an international student cannot secure a cosigner in the United States, and is unable to obtain a loan from a loan program included on the UC private loan list for international students, a UC campus is permitted to refer the student to a specialized loan program that will accept a cosigner from that student's country of origin.
  7. A UC campus may not refuse to certify or intentionally delay the certification of any loan based on the borrower's selection of a particular lender. However, student borrowers who select lenders that do not have an electronic interface with the campus, might experience a longer processing time due to the manual nature of the process, and such a delay would not be considered a code of conduct violation.
  8. A UC campus must not request or accept from any lender any offer of funds to be used for private education loans to students, including recourse loans and/or funds for opportunity pool loans, in exchange for the UC campus providing concessions or promises to the lender of a specified number or volume of those loans, or entering into a preferred lender arrangement for those loans. The term *recourse loans*, as used here, refers to arrangements between schools and lenders, in which the school provides funds to a lender to offset the risk of the lender providing loans to students at the school who have a high risk of default. The term *opportunity pool loans*, as is used here, means private education loans made by a lender to students attending the institution or the family member of such students that involves a payment directly or indirectly by that

institution, of points, premiums, additional interest, or financial support to that lender for the purpose of that lender extending credit to the student or family. Regulations do not prohibit recourse loans or opportunity pool loans in all cases. Regulations only prohibit such loans if the funds for those loans are provided in exchange for concessions or promises to the lender of a specified number or volume of private education loans, or entering into a preferred lender arrangement for private education loans.

9. The institution must not request or accept from any lender any assistance with call center staffing or financial aid office staffing. **The exceptions to this policy are:**
  - a. Professional development training for financial aid administrators.
  - b. Providing educational counseling materials, financial literacy materials, or debt management materials to borrowers, provided that such materials disclose to borrowers the identification of any lender that assisted in preparing or providing such materials.
  - c. Staffing services on a short-term, nonrecurring basis to assist the institution with financial aid-related functions during emergencies, including State-declared or Federally declared natural disasters, and other localized disasters and emergencies identified by the Secretary.
10. A UC employee, or employee of a UC-affiliated institution, who has job responsibilities that directly or indirectly involve the development of UC private loan lists or who communicates with students about their education loan options, must not fail to disclose any potential financial interest in a lender or fail to report the offer of a gift from a lender to his or her supervisor or other appropriate University official.
11. Any UC financial aid office employee or any UC employee who otherwise has responsibilities with respect to private education loans or other forms of student financial aid, and who serves on an advisory board, commission, or group established by a lender or group of lenders, must not receive anything of value from the lender, or group of lenders, except that the employee may be reimbursed for reasonable expenses incurred in serving on such an advisory board, commission or group. The term *reasonable expenses*, as used here, means that the expenses meet the standards of and are paid in accordance with applicable Federal cost principles for reimbursement as stated in the Office of Management and Budget (OMB) circular A-21 as Revised on May 10, 2004. Because UC's "Policy and Regulations Governing Travel," in Business and Finance Bulletin Number G-28 (<http://www.ucop.edu/ucophome/policies/bfb/g28.pdf>) meets the Federal cost principles as outlined in OMB Circular A-21, it is appropriate to follow the UC policy. Reimbursements for reasonable expenses, as specified in this paragraph, are permissible and stand as an exception to the gift restrictions stated in paragraph number 2 of this code of conduct. The U.S. Department of Education (USDE) is tasked with creating a form for institutions to use to report annually to the USDE all expense reimbursements received from lenders, and the reimbursements must not exceed those allowed in UC policy. Regulations require that reporting occur annually once the USDE issues the required forms and reporting instructions.