

Session #55

Rules of Direct Loan Processing

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Legislation Affecting Loan Limits

- Ensuring Continued Access to Student Loan Act of 2008 (ECASLA)(May 7, 2008 – Pub. L. 110-227)
- DCL GEN -8-08, June 19, 2008
- ECASLA:
 - increased undergraduate unsubsidized annual loan limits (no change to subsidized annual limits)
 - increased undergraduate sub/unsub aggregate limits (no change to subsidized aggregate)
 - no change to graduate/professional annual/aggregate limits
 - no change to PLUS loan limits

ECASLA

- \$2,000 additional unsubsidized annual loan amount for dependent undergraduates
- Increased additional unsubsidized annual loan limits for independent undergraduates and dependent undergraduates with no parent PLUS eligibility
 - increase from \$4,000 to \$6,000 for first and second-year undergraduates
 - increase from \$5,000 to \$7,000 for third-year undergraduates and beyond

ECASLA (cont.)

- Additional unsubsidized annual loan limit for undergraduate preparatory coursework increased from \$4,000 to \$6,000
 - no change for graduate/professional preparatory coursework
 - no change for teacher certification coursework
- Dependent undergraduate student without parent PLUS not eligible for both \$2,000 and \$6,000/\$7,000 – only additional \$6,000/\$7,000 (same as independent)

ECASLA (cont.)

- Undergraduate aggregate limits:
 - Dependent students (except those with no parent PLUS)
\$31,000 (\$23,000 maximum subsidized)
 - Independent students (includes dependent students with no parent PLUS)
\$ 57,500 (\$23,000 maximum subsidized)

Special Loan Limit Rules

- One-year Certificate Program
 - always first-year undergraduate loan limit even if consecutive one-year programs * (See slide 7.)
- Two-year Associate Degree Program
 - maximum second-year undergraduate loan limit unless approved program normally requires more than two academic years to complete
- Proration of annual loan limit for undergraduates (not required for grad/professional students)
 - program less than academic year (AY) in length or remaining balance of program less than AY

Special Loan Limit Rules

- * Does not apply to certificate programs for which an associate or baccalaureate degree is required for admission, post-baccalaureate teacher certification programs, or graduate/professional certificate programs. DOES apply to remaining balance of a one-year certificate program even if that period exceeds school's defined title IV academic year.

Additional Unsubsidized Limits for Certain Health Profession Students

- No change in annual/aggregate increased unsubsidized loan limits for certain health profession students
- See Vol. 3, CH 6 page 3-100 to 3-102 of 2009-10 FSA Handbook and DCL GEN-08-04, April 2008

Changes to Stafford Annual Loan Limits Within Academic Year

- Annual loan limits apply to academic year
- Increased loan limit based on grade level
 - only applies to standard term program or nonstandard with substantially equal terms of at least 9 weeks (SE9W)
 - increase based on new grade level
 - new loan limit applies to term in which grade level progression takes place
 - eligibility for up to difference between new and prior loan limit

Transfer Students With Overlapping Academic Years

- Standard term or nonstandard SE9W program
 - initial origination for remaining balance of annual loan limit for any term within overlapping academic year
- Credit hours without standard or SE9W terms or clock hours IF NO CREDIT OR CLOCK HOURS TRANSFERRED
 - origination for academic year for up to remaining balance of annual loan limit

Transfer Students With Overlapping Academic Years

- Credit hours without standard or SE9W terms or clock hours IF CREDIT OR CLOCK HOURS ARE TRANSFERRED
 - origination for remaining portion of program or academic year for up to remaining balance of annual loan limit

See Vol.3, CH 6, page 3-121 of 2009-10 FSA Handbook

Program Completion/New Program Within Same Academic Year

- School may originate loan for remainder of academic year up to remaining balance of annual loan limit of new program

Late Disbursements 34CFR 668.164(g)

- Borrower becomes ineligible on date no longer enrolled at least half-time for loan period
- Eligible for late disbursement if, BEFORE BORROWER BECOMES INELIGIBLE:
 - SAR or ISIR with official EFC generated
 - Loan originated (MPN may be signed later)

Late Disbursements 34CFR 668.164(g)

- Limitations:
 - Must make late disbursement within 180 days from date borrower became ineligible
 - No late second/subsequent disbursement unless borrower graduates or completes loan period
 - For first-time, first-year borrowers, no late first disbursement unless borrower completes first 30 days of program

Late Disbursements 34CFR 668.164(g)

- NOTE:
 - May not adjust original loan amount upward after end of loan period and make late disbursement

Upward adjustment same as originating after end of loan period – not allowed under late disbursement rules

Reallocation of Sub/Unsub

- Subsidized to Unsubsidized and vice versa
- Reasons for change:
 - Change of financial need
 - Overaward
 - Inadvertent overborrowing
 - Error

Reallocation of Sub/Unsub

- Initial eligibility must include loan type to avoid new loan origination unless error in initial origination
- Adjustment may take place after close of loan period if no new dollars involved

Participation-Direct Loan Programs

- Direct Sub and Unsub are part of ONE program (Stafford)
 - Annual loan limits shared
 - HEA requires borrower eligibility sequence:
 - Pell, if applicable
 - Subsidized
 - Unsubsidized
 - No participation in only subsidized or unsubsidized
 - May not limit unsub to “base” amount

Participation – Direct Loan Programs

- Direct PLUS is ONE program
- If school participates in PLUS, must make available to both parent and grad/professional borrowers
- If school has only grad/professional programs, may not limit participation to PLUS only:

Before awarding PLUS, must --

- Determine maximum Direct Sub/Unsub eligibility
- Explain differences between PLUS and Sub/Unsub
- Offer opportunity to request Sub/Unsub

PLUS Eligibility

- PLUS eligibility:
 - All applicants: No adverse credit
 - Parent applicant:
 - Meets citizenship/residency requirements, no default or overpayment
 - Dependent enrolled at-least-half-time and meets all other eligibility requirements

PLUS Eligibility

- Student Applicant:
 - Meets all student eligibility requirements

PLUS Eligibility – Adverse Credit

- 34CFR 685.200 defines adverse credit as:
 - Not currently 90 days or more delinquent on any debt
 - In last 5 years, not subject to:
 - default determination
 - bankruptcy discharge
 - foreclosure
 - repossession
 - tax lien
 - wage garnishment
 - write off of Title IV debt



PLUS Eligibility

- Requires credit check
- Absence of credit history not evidence of adverse credit
- DL credit check looks for adverse credit ONLY, not creditworthiness
 - Doesn't look at FICO
 - Doesn't look at income-to-debt ratio
 - Doesn't look at loan amount

PLUS Eligibility

- Eligibility determination good for one academic year * (See slide 25.)
- If adverse credit, PLUS eligibility still possible:
 - Use of endorser with no adverse credit (not dependent student)
 - Successful appeal based on extenuating circumstances

PLUS Eligibility

- * Applies to dependent eligibility for additional unsubsidized loans unless parent reapplies later in the academic year and is determined PLUS eligible. Applies to parent PLUS eligibility if PLUS loan is originated within 90 days of credit check approval and to any PLUS loan amount adjustments made (without new loan origination) within that academic year; DOES NOT apply if school originates or parent applies for new PLUS loan during same academic year, but more than 90 days after prior loan check –this triggers new credit check

PLUS Eligibility

- Examples of “extenuating circumstances”:
 - Credit information erroneous or not applicant’s information
 - Applicant has brought debt current or addressed basis of adverse credit

School Authority to Determine PLUS Eligibility

- Done as part of determining dependent eligibility for additional unsubsidized amount
- Before OR after credit check, **EVEN IF NO ADVERSE CREDIT AND APPLICANT APPROVED**, school can document exceptional circumstances

PLUS-Related Dependent Eligibility for Additional Unsubsidized Stafford

- Exceptional circumstances may include:
 - Parent's limited income of public assistance or disability benefits shows likely inability to repay
 - Documented family financial information (income, expenses, and debts) shows likely inability to repay
 - Parent is incarcerated
 - Parent's whereabouts unknown
 - Parent filed bankruptcy and court's letter states no additional debt can be incurred
 - Parent is not U.S. citizen or eligible non-citizen



PLUS-Related Dependent Eligibility for Additional Unsubsidized Amount

- Not valid reasons:
 - Parent's unwillingness to borrow PLUS
 - School's decision not to participate in PLUS
 - FAO's belief parent should not borrow (without documentation of limited exceptional circumstances)

PLUS-Related Dependent Eligibility for Additional Unsubsidized Amount

- Only one parent must be denied or documented as likely unable to repay PLUS
- If both parents apply and one is eligible, dependent ineligible for additional unsub
- FAO's determination of dependent's eligibility applies to one academic year
- Dependent may become eligible any time in academic year if change in parent's PLUS eligibility

PLUS-Related Dependent Eligibility for Additional Unsubsidized Amount

- Parent eligible and then ineligible in same academic year
 - Additional unsubsidized amount originated with disbursed PLUS amount counted in EFA
- Parent ineligible and then eligible in same academic year
 - Disbursed additional unsubsidized amount counted as EFA in PLUS eligibility and remaining Unsub disbursements cancelled

Loan Origination: Multiple Disbursement Requirements

- HEA requires:
 - Multiple disbursement of loan over loan period unless CDR exempt
 - Substantially equal installments
 - Interval between disbursements not less than one-half the loan period unless required for next semester, quarter, or similar term (SE9W)

Loan Origination/Disbursement Options:

– Unequal Costs in Standard or SE9W Term-Based Program

- Single term origination with at least two substantially equal disbursements (2nd at term midpoint) unless CDR exempt
- Academic year origination with student-authorized refund/cancellation or partial cancellation of second/subsequent disbursement

Changes to Stafford Annual Loan Limits Within Academic Year

- Increased loan limits based on grade level
 - If grade level changes mid term
 - Eligible for up to difference between new and prior loan limit
 - Can create a new award at the new grade level
 - Can increase grade level in existing award

Changes to Stafford Annual Loan Limits Within Academic Year

- Can create a new award at the new grade level
 - Example:
 - Original Grade Level 1 Award \$3500
 - Disbursement 1 \$1750 9/12/2010
 - Disbursement 2 \$1750 2/12/2011

 - New Grade Level 2 Award \$1000
 - Disbursement 1 \$500 2/12/2011
 - Disbursement 2 \$500 4/12/2011
- The academic year would be the same as the original award but the loan period would be specific to the new award.



Changes to Stafford Annual Loan Limits Within Academic Year

- Can increase grade level in existing award
 - Example:
 - Original Grade Level 1 Award \$3500
 - Disbursement 1 \$1750 9/12/2010
 - Disbursement 2 \$1750 2/12/2011
 - Submit Grade Level 2
 - Wait for a response
 - Submit updated award amount of \$4500
 - Disbursement 1 \$1750 9/12/2010
 - Disbursement 2 \$2750 2/12/2011

Since updates had to be made mid year to address changes in eligibility, this unequal disbursement is allowed.

Loan Amounts in COD

- One-year Certificate Program
 - always first-year undergraduate loan limit even if consecutive one-year programs
 - Grade level 0 = 1st year, no prior loans
 - Grade level 1 = 1st year, prior loans
- Two-year Associate Degree Program
 - maximum second-year undergraduate loan limit unless approved program normally completed in more than two academic years
 - Grade level 2 = 2nd year undergraduate/sophomore

Reallocation of Subsidized/Unsubsidized

- Annual Loan Limit edits performed at both the award and disbursement levels.
- Determined by the academic year, earliest disbursement date, grade level, and dependency status.
- Additional flags are used for Unsubsidized limits
 - Additional Unsubsidized Indicator
 - Health Professions (HPPA)
 - Preparatory Coursework for Admission to a Graduate/Professional program/Teacher Certification (PPCI)

Reallocation of Subsidized/Unsubsidized

- Subsidized to Unsubsidized and vice versa
 - If the complete amount needs to be reallocated
 - The incorrect award needs to be inactivated (reduced to zero) and then originated using the correct loan type
 - Decrease disbursement to zero
 - Wait for response
 - Decrease the award to zero
 - Wait for the response
 - Originate the correct award amount as the correct loan type with the same disbursement dates as the original award
- Important Note: This can be done even after the end of the loan period as long as you are only reallocating. Even if the borrower only had one type of award and you have to originate the other type of award.

Reallocation of Subsidized/Unsubsidized

Subsidized award for \$2000 should have been unsubsidized loan

- Original subsidized award \$2000
- Disbursement 1 \$1000 9/12/2010
- Disbursement 2 \$1000 2/12/2011
- Reduce disbursements to \$0
- Wait for the response
- Reduce award amount to \$0
- Wait for response
- Originate unsubsidized loan for \$2000
- Disbursement 1 \$1000 9/12/2010
- Disbursement 2 \$1000 2/12/2011
- Use same loan period as the original Subsidized loan

Reallocation of Subsidized/Unsubsidized

- Subsidized to Unsubsidized and vice versa
 - If part of the award needs to be reallocated from one type to the other
 - Reduce disbursements
 - Wait for response
 - Reduce award amount
 - Wait for response
 - Increase award amount
 - Wait for response
 - Increase disbursements
- Important Note: This can be done even after the end of the loan period as long as you are only reallocating. The disbursement dates should remain the same.

Reallocation of Subsidized/Unsubsidized

- Example:
 - Subsidized award for \$2000
 - Disbursement 1 \$1000 9/12/2009
 - Disbursement 2 \$1000 2/12/2010
 - Unsubsidized award for \$1000
 - Disbursement 1 \$500 9/12/2009
 - Disbursement 2 \$500 2/12/2010
- Should have been Subsidized award for \$1000 and Unsubsidized award for \$2000

Reallocation of Subsidized/Unsubsidized

Subsidized award for \$2000

- Disbursement 1 \$1000 9/12/2009
- Disbursement 2 \$1000 2/12/2010
- Reduce Subsidized disbursements
 - Disbursement 1 \$500 9/12/2009
 - Disbursement 2 \$500 2/12/2010
- Wait for response
- Reduce Subsidized award to \$1000
- Wait for response
- Increase Unsubsidized award to \$2000
- Wait for response
- Increase Unsubsidized disbursements
 - Disbursement 1 \$1000 9/12/2009
 - Disbursement 2 \$1000 2/12/2010



Reallocation of Subsidized/Unsubsidized

- Example: Subsidized and Unsubsidized disbursed on different dates
- Subsidized award for \$2000
 - Disbursement 1 \$1000 9/12/2009
 - Disbursement 2 \$1000 2/12/2010
- Unsubsidized award for \$1000
 - Disbursement 1 \$500 9/22/2009
 - Disbursement 2 \$500 2/22/2010
- Should have been Subsidized award for \$1000 and Unsubsidized award for \$2000

Reallocation of Subsidized/Unsubsidized

Subsidized award for \$2000

- Disbursement 1 \$1000 9/12/2009
- Disbursement 2 \$1000 2/12/2010
- Reduce Subsidized disbursements
 - Disbursement 1 \$500 9/12/2009
 - Disbursement 2 \$500 2/12/2010
- Wait for response
- Reduce Subsidized award to \$1000
- Wait for response



Reallocation of Subsidized/Unsubsidized

- Increase Unsubsidized award to \$2000
- Wait for response
- Increase Unsubsidized disbursements
 - Disbursement 1 \$500 9/12/2009
 - Disbursement 2 \$500 2/12/2010
 - Disbursement 3 \$500 9/22/2009
 - Disbursement 4 \$500 2/22/2010

Remember that the original disbursement was for \$1000 on 9/12 and 2/12 so we want to show the Subsidized award was disbursed on those dates, so of the \$1000 the student received on that date, \$500 of it should have been unsubsidized.

PLUS Loan Processing in COD

- The PLUS Request is informational for the school
 - Requests are always accepted
 - Accepted PLUS Request (PLUS App) does NOT equal accepted Credit
- Credit status must be looked at to determine credit eligibility
- Credit decision is not based on an amount
 - Borrowers are eligible for amount school determines
- If school has separate confirmation process that process overrides the PLUS Request information

Contact Information

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