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Direct Loan and FFEL Programs

Introduction

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These loans are offered through two programs with different delivery systems: the William D. Ford Federal Direct Loan (Direct Loan) Program and the Federal Family Education Loan (FFEL) Program. While the borrower's eligibility is the same under either program, the procedures are different because funds for Direct Loans are provided directly to the school by the federal government, while loan funds under FFEL are usually provided by a private lender and are guaranteed by a state agency.

Federally guaranteed loans were first authorized in Part B of Title IV of the Higher Education Act of 1965 (HEA). For many years, these were termed "Guaranteed Student Loans." The Higher Education Amendments of 1992 (P.L. 102-325) renamed the guaranteed student loan programs the Federal Family Education Loan (FFEL) Program, comprising Stafford Loans for students and PLUS loans for parents. The Student Loan Reform Act of 1993 authorized the Direct Loan Program, which is now Part D of the Higher Education Act. The loans that are offered under these two programs have the same eligibility rules and the same annual and aggregate maximum amounts.

The primary difference between the Direct and FFEL loan programs is the source of funds for borrowers. Funds for Direct Loans come from the federal government; loans made through the FFEL program are provided by private lenders and are insured by guaranty agencies and reinsured by the federal government. The federal guaranty on the FFEL loans replaces the security (the collateral) usually required for long-term loans from banks and credit unions.

Several thousand financial institutions participate in the FFEL program. In addition, some schools have opted to become lenders in the FFEL program. (See Chapter One for more information on the requirements for schools to act as FFEL lenders.)

The regulations for the FFEL Program are found at 34 CFR 682, and for the Direct Loan Program at 34 CFR 682. Note that although guaranty agency procedures and policies must conform to the FFEL requirements discussed in this chapter, **individual guaranty agencies may have additional procedures and policies**. To obtain specific information about a guaranty agency's policies and procedures, contact that agency.

The following types of loans are available through both the Direct Loan and FFEL programs:

- **Subsidized Stafford Loans** are awarded to students who demonstrate financial need. Because the U.S. Department of Education (the Department) subsidizes the interest, borrowers are not charged interest while they are enrolled in school at least half time and during grace and deferment periods. (The Direct Loan Program regulations refer to the Federal Direct Stafford/Ford Loan Program and Direct Subsidized Loans .)

- **Unsubsidized Stafford Loans** are awarded to students regardless of financial need. Borrowers are responsible for paying the interest that accrues during any period.

Independent students and students whose parents cannot get a PLUS have higher unsubsidized loan limits. (The Direct Loan Program regulations refer to the Federal Direct Unsubsidized Stafford/Ford Loan Program and Direct Unsubsidized Loans.)

- **PLUS Loans** allow parents to borrow on behalf of their dependent undergraduate children who are enrolled at least half time. As with unsubsidized Stafford loans, borrowers are responsible for the interest that accrues on PLUS Loans throughout the life of the loan.

- **Consolidation Loans** allow a borrower to combine one or more federal education loans into a single loan to facilitate repayment. Because the repayment period is longer, consolidation loans may be a way to reduce the borrower's monthly payments; however, the total interest repaid over the life of the loan is usually higher. The process of consolidating loans usually does not directly involve the school—the consolidating lender purchases qualifying student loans from other lenders.

In this reference, unless specifically referred to as a Direct Loan or an FFEL, the terms "Stafford Loans," "Consolidation Loans," and "PLUS Loans" refer to loans in both programs.

RECENT CHANGES

Several significant changes to the loan programs have recently taken effect. The statutory authority for the disbursement exceptions for schools with default rates less than 10% has expired (see sidebar notes to pages 8-45, 8-46, and 8-61). The Department has issued a new version of the Stafford MPN, expanded the use of the multi-year feature of the MPN to all schools located in the U.S., and approved the first PLUS MPN. (See pages 8-39, 8-41, and 8-48)

The program regulations published in the Federal Register on November 1, 2002, also made a number of changes that affect these loan programs.

- Modified counseling requirements, including requirements that schools provide sample monthly repayment amount to student during entrance counseling (new for FFEL) and tell borrowers about Loan History information on NSLDS (See Chapter Five).
- New late disbursement policies and procedures (8-62).
- Students in non-term programs must complete weeks of instruction as well as academic work in a payment period prior to receiving payment for subsequent payment period (8-63).
- The limits on leaves of absence have been modified (sidebar note, 8-66)
- Link to Federal Register: http://ifap.ed.gov/fregisters/FR1101200203.html.

We've also expanded our discussion of loan issues to incorporate material from Dear Colleague letters and other Departmental guidance:

- Choice of EFC for "crossover" loan periods (8-11).
- School may not have a policy of certifying loans only in amounts to cover school charges, or to limit unsubsidized borrowing by independent students (8-14).
- Receipt of Stafford/PLUS at more than one school (sidebar note, 8-18).
- Additional guidance on annual limits for transfer and other students (sidebar notes, 8-22).
- Remedial work and grade level (sidebar note, 8-23).
- Additional loan amounts for dependent students when parents can't get PLUS (sidebar notes, 8-24).
- Expanded discussion of Stafford limits for graduate and professional students (8-24 and 8-25).
- Loan limits for dependent students who previously borrowed as independent (sidebar note, 8-30).
- Loan limits for health professions borrowers who transfer to unrelated programs (8-36).
- Electronic notification for the borrower confirmation of subsequent loan disbursements (8-39).
- Expanded discussion of retroactive disbursements for payment periods already completed (8-63).
- Note on effect on Stafford eligibility of withdrawal from modular program (sidebar, 8-66).

CHAPTER 1

School Requirements for the DL/FFEL Programs

Before your school can begin making loans under Direct Loan or Federal Family Educational Loan (FFEL) Program, it must meet the statutory definition of an "eligible school," and agree to perform certain administrative functions. Most of the statutory requirements for institutional eligibility are discussed in Volume 2 of the FSA Handbook. But there are a few exceptions and additional requirements for these loan programs, as discussed below. A school may also act as a lender in the FFEL program, provided it uses any net income from ED's interest and special allowance payments to make financial aid grants to its students, as described at the end of this chapter.

SCHOOL ELIGIBILITY ISSUES:

- Eligibility for in-school deferment at non-participating schools
- Program Participation Agreement
- Prohibited school and lender activity
- Recordkeeping and audits
- Loss of eligibility
- Cohort default rates
- School acting as FFEL lender

ELIGIBILITY ISSUES FOR LOANS

In order to participate in the Direct Loan or FFEL programs, a school must meet the FSA program eligibility criteria discussed in *Volume 2: Institutional Eligibility and Participation*. Only institutional eligibility issues specific to the Direct Loan and FFEL programs are discussed here.

A school must be accredited as an institution of higher education offering a graduate-level program to be eligible to certify Direct Loans or FFELs at the **graduate level**. (Students must be unconditionally accepted into a graduate or professional program.) A school that only offers **correspondence programs** is not eligible to participate in the Direct Loan or FFEL programs.

A school can choose to participate in either the Stafford or PLUS programs, or both.

Foreign schools are eligible to participate in the FFEL programs (Stafford and PLUS loans made through private lenders). In fact, these are the only two FSA programs that are available to students enrolled in degree or certificate programs at foreign schools. However, an eligible school in the U.S. may pay a student with funds from any of the FSA programs for "study abroad" coursework, provided that the coursework is considered part of the student's eligible program at the domestic school.

Program Participation Requirements
Current requirements may have changed since your school's agreement was executed—see Volume 2 of this Handbook and 34 CFR 668.14

Eligibility for in-school deferments only

If a school has never participated in the FSA programs but wants to be considered an eligible school so that its students can receive in-school deferments on previous loans, the school must demonstrate that it meets the definition of an eligible school before the school may certify borrower deferment forms. To find out more about eligibility for deferment purposes, contact the Case Management Team for your state. For students attending a foreign school to receive in-school deferments, the school must apply for eligibility through the Foreign Schools Team.

Applications to request designation as an eligible institution for in-school deferment should be sent via the Electronic Application that can be found at **<www.eligcert.ed.gov>.** Select the link to "Application" and then go to the bottom of the right-hand column to select "Initial Applicants" to review the general requirements to be an eligible institution. (For a more detailed explanation, see Volume 2, Chapter 1 of this *Handbook*.) If you believe that your school meets the requirements, you may print out a list of questions for initial applicants and fax the completed document to the Case Management Team that serves your state. The team will assign your school an OPEID number which will enable you to complete the full application to request designation as an eligible institution.

PROGRAM PARTICIPATION AGREEMENT REQUIREMENTS

Financial aid administrators should be familiar with the terms of the Program Participation Agreement (PPA) that the school has made with the Department. See *Volume 2: Institutional Eligibility and Participation* for complete information about all of the requirements. For your reference, we have listed below some of the key provisions of the PPA that relate specifically to the loan programs. A school's PPA requires that

- an FFEL school must inform enrolled eligible borrowers of the availability of state grant assistance from the state in which the school is located, and provide a source of information for programs in the home state of the eligible borrower,

- a school must furnish information to the holders of Stafford or PLUS loans that were made at that school, as needed to carry out program requirements,

- a school must not certify or originate an FFEL or Direct Loan for an amount that exceeds the annual or aggregate loan limits, and

- a school that is beginning participation in the Stafford or PLUS programs or that has changed ownership (resulting in a change in control) must use a default management plan approved by the Department for its first years of participation unless the school has a default rate of 10% or less. (If the owner has owned any other schools, the default rates at those schools may not have exceeded 10% during the tenure of that owner.)

The PPA (as well as program regulations) also prohibits schools from charging fees for processing applications or data required to determine eligibility for FSA Programs or for processing Direct Loan or FFEL Program deferment forms.

Prohibition on commissions for enrollment recruiting

Discussed as one of the program participation requirements — see Section 487(a)(20) of the HEA and 34 CFR 668.14(b)(22)

Prohibited inducements

Schools 34 CFR 682.212
Lenders 34 CFR 682.200
Guarantors 34 CFR 682.401(e)

PROHIBITED SCHOOL AND LENDER ACTIVITY

The Higher Education Act prohibits a school from paying a commission, bonus, or other payment that is based directly or indirectly on success in securing enrollments or financial aid if the payee is engaged in any student recruiting or admission activities, or in making decisions regarding the awarding of student aid. This prohibition applies equally to payments to school staff, entities, or contractors. However, the law makes one exception: it does not prohibit a school from making incentive payments for recruiting foreign students in foreign countries who aren't eligible for Federal student aid.

The final regulations published on November 1, 2002 have clarified the statutory prohibition on incentive payments by identifying 12 types of payment and compensation plans that are permissible under the law. For more detailed information, see the discussion in Volume 2, Chapter Two.

A school is also prohibited from paying points, premiums, payments, or additional interest of any kind to any eligible lender or other party in order to induce a lender to make loans to students at the school or to the parents of the students.

Lenders may not offer, directly or indirectly, points, premiums, payments, or other inducements, to any school or other party to secure applicants for FFEL loans. Similar restrictions apply to guaranty agencies. In addition, lenders and guaranty agencies are forbidden to mail unsolicited loan application forms to students enrolled in high school or college, or to their parents, unless the prospective borrower has previously received loans guaranteed by that agency.

However, lenders, guaranty agencies, and other participants in the FFEL Program may assist schools in the same way that the Department assists schools under the Direct Loan Program. For example, a lender's representatives can participate in counseling sessions at a school, including initial counseling, provided that school staff are present, the sessions are controlled by the school, and the lender's counseling activities reinforce the student's right to choose a lender. A lender can also provide loan counseling for a school's students through the Web or other electronic media, and it can help a school develop, print, and distribute counseling materials.

Record retention requirements
General Provisions —34 CFR 668.24
FFEL—34 CFR 682.610
DL—34 CFR 685.309(c)
If a school is a lender and the holder of a promissory note, the school has additional record retention responsibilities comparable to those in 34 CFR 682.414(a)(4(ii)

Audit Guide Reference
The Audit Guides are posted on the Web in PDF format — go to the IFAP main page, select "Current Publications" and go to the alphabetical listing for "Audit Guides." The specific Web address for the listing of publications is:
ifap.ed.gov/library/current.htm

RECORDKEEPING

In establishing or reviewing your office's procedures, you should consult *Volume 2: Institutional Eligibility and Participation* for information on requirements that are common to all of the FSA programs. Following is a list of records that must be kept for the Stafford and PLUS loan programs:

- A copy of the loan certification that the school sends to the lender (in FFEL) or the Direct Loan Origination Center, including the amount of the loan and the period of enrollment. The requirement includes certification information submitted electronically.

- The cost of attendance, estimated financial assistance, and estimated family contribution used to calculate the loan amount (and any other information that may be required to determine the borrower's eligibility, such as the student's Federal Pell Grant eligibility or ineligibility).

- The date(s) the school disbursed the loan funds to the student (or to the parent borrower), and the amount(s) disbursed. (For loans delivered to the school by check, the date the school endorsed each loan check, if required.)

- Documentation of any confirmation process or processes associated with multi-year use of the Master Promissory Note. This does not have to be part of individual borrower files, but can be part of a student handout or other written statement of your policies. There is no retention limit for this documentation; you must keep it indefinitely because it may affect the enforceability of loans.

A school must keep records relating to a student or parent borrower's eligibility and participation in the Direct Loan or FFEL program for three years after the end of the award year in which the student last attended the institution. A school must keep all other records relating to the school's participation in the Direct Loan or FFEL program for at least three years after the end of the award year in which the records are submitted.

AUDITS & AUDIT WAIVERS

At least once a year a school that participates in any FSA Program must have an independent auditor conduct a compliance audit and a financial statements audit. More information is provided in *Volume 2: Institutional Eligibility and Participation* and the *Audit Guide: Audits of Student Financial Assistance Programs.* (Both publications are available in electronic format at ifap.ed.gov)

If your school has disbursed less than $200,000 of FSA program funds for two consecutive completed award years and meets all of the conditions in 34 CFR 668.27, it may apply for a waiver of the annual audit submission requirement. If granted, the waiver permits a school to submit compliance audits and financial statement audits six months after the end of a three-year period or, in certain cases, after the end of a two-year period.

Under the waiver, compliance and financial statement audits are not required until six months after the end of the third fiscal year in which your school last submitted a compliance and financial statement audit. For instance, if your school last submitted a compliance audit and financial statement audit in the fiscal year ending December 31, 1999 and receives an audit submission waiver, it is not required to submit another compliance audit or financial statement audit until June 30, 2003, which is six months after its third fiscal year (FY 2002) following the audits submitted in its 1999 fiscal year.

However, the waiver is not applicable when your school intends to apply for recertification in an award year that is part of the third fiscal year referred to above. In that case, your school must submit its compliance audit and financial statement audit six months after the second fiscal year following the fiscal year for which your school last submitted audits. Another limit on the waiver is when your school has a change in ownership that changes the control of the school—the application for approval of that change must be supported by audited financial statements for the two fiscal years completed immediately prior to the change.

LOSS OF ELIGIBILITY OR WITHDRAWAL FROM LOAN PROGRAMS

If a school is notified that it has lost its eligibility to participate in the Direct Loan or FFEL programs and the school does not intend to appeal the decision, it must immediately inform all current and *prospective* students of its loss of eligibility. The school must also explain that it can no longer certify Stafford and PLUS loans for students or parents. If the school appeals its loss of eligibility within the required time frame, the school may continue certifying Stafford and PLUS loans during the appeal process. Once a final decision on the appeal is made, the school must take the actions described in the Department's final appeal determination letter.

If a school loses eligibility or discontinues participation in the Direct and/or FFEL programs, reinsurance of loans previously disbursed will not be affected, and interest subsidies will continue as long as each student maintains his or her required enrollment status. The student's grace period and eligibility for in-school deferment also will not be affected by a school's loss of eligibility.

If a school plans to withdraw from participation in the Direct Loan and/or FFEL programs, it must notify the appropriate guaranty agency or agencies (for FFEL schools) and the Department (for schools with either loan program) of its decision in writing. Once the effective date of withdrawal has been established, the school is

Procedures for withdrawal from the FFEL or DL programs
Contact the Case Management Team for your state.

New eCDR Process—enroll by 6/1/03!
The official FY2001 default rates will be sent in electronic form (as a plain-text message) to all domestic schools in the fall of 2003. You must enroll in the eCDR process by June 1, 2003, using the enrollment form at:

www.fsawebenroll.ed.gov

On this Web page, choose "Enroll" and then select the radio button for "Modify Existing Services for a Destination Point."

The default rates will continue to be mailed to foreign schools. [Based on notice published February 23, 2003]

Cohort Default Rate Guide
This chapter only provides a brief overview of the default rate process. For more technical information, please refer to the **Cohort Default Rate Guide**. The *Guide is* updated continuously on the IFAP Web site.

ifap.ed.gov/drmaterials/FinalCDRG.html

Questions about Cohort Default Rates

U.S. Department of Education
Default Management
Union Center Plaza, 084F
400 Maryland Avenue, SW
Washington, DC 20202-5353

Telephone
202/377-4259

E:mail
FSA.Schools.Default.Management@ed.gov

prohibited from disbursing loan funds to the student (with one exception, discussed in the following paragraph). Any loan funds that cannot be disbursed must be returned to the lender within 30 days.

If the first payment of a Stafford Loan was made to the student before the school ceased to be eligible, the school may be able to make a subsequent disbursement to the student if it continues to provide instruction and the loan meets the other requirements in 34 CFR 668.26(d)(2) and (3). However, if a school loses eligibility before it delivers **any** loan proceeds to the student, the school is not permitted to deliver the loan proceeds to the student.

If a foreign medical school loses eligibility to participate in the FFEL Program, its students who were continuously enrolled at the school before the loss of eligibility may receive Stafford loans through the next academic year.

COHORT DEFAULT RATES

Generally speaking, a cohort default rate is the percentage of a school's student borrowers who enter repayment on Stafford loans during a particular fiscal year and who default before the end of the next fiscal year. (There are other criteria and exceptions — see the complete definition in the *Cohort Default Rate Guide.)*

The Department releases draft default rates in February to allow schools an opportunity to review and correct the data that will be used to calculate their official cohort default rates. In the early fall of each year, the Department issues the official cohort default rates. The most recent default rates, issued in September 2002, are based on the cohort of students who entered repayment in fiscal year 2000 (the federal fiscal year runs from October 1, 1999-September 30, 2000). These rates were mailed to schools and are posted on the Web at:

www.ed.gov/offices/FSA/defaultmanagement/cdr.html

The fiscal year 2001 rates will be issued in the fall of 2003. If your school is located in the U.S., you must enroll for electronic delivery of the rates (see sidebar note for instructions).

If your school has a default rate above established thresholds, it may be subject to certain sanctions. Conversely, a school with default rates below other established thresholds may be exempted from certain of the disbursement requirements discussed in Chapter 4 of this Volume. For more information, please refer to the *Cohort Default Rate Guide*.

SCHOOL ACTING AS FFEL LENDER

A postsecondary school can also act as an FFEL lender, but there are several restrictions on loans to *undergraduate students*.

- The school may only make Stafford loans to undergraduate students who have previously received a loan from the school or who have been denied a loan by an eligible lender.

- A school may make FFEL loans to no more than 50% of its undergraduate students.

These restrictions do not apply to graduate and professional students at the school.

As a lender, the school receives payments of interest and principal from the student borrower, and special allowance payments from the Department. Except for reasonable administrative expenses, the school must use the interest and special allowance payments to make need-based grants to its students.

To become an eligible lender, your school must have at least one full-time financial aid administrator, and have a cohort default rate of 15% or less. (Under certain circumstances, the Department can waive the cohort default rate limit.) Home-study schools cannot be FFEL lenders.

School lending
FFEL regs—34 CFR 682.601
HEA—Sec. 435(d)(2) thru (d)(5)
US Code—20 USC 1085

Borrower Eligibility for Stafford and PLUS loans

CHAPTER 2

To receive a Stafford Loan, a student borrower must meet the basic eligibility requirements for FSA funds (citizenship, Selective Service registration if applicable, etc.). In addition, the student must be enrolled at least half time to receive a loan. A parent borrower must meet certain nonacademic requirements, such as citizenship, while the student who is to benefit from the PLUS loan must be enrolled at least half time and otherwise eligible to receive FSA funds. Unlike Pell Grants, the loan amounts do not vary by enrollment status (though the student must be enrolled at least half time for Stafford and PLUS loan purposes).

BORROWER ELIGIBILITY ISSUES:

- Preparatory coursework eligible for loans
- Determining financial need
- Eligibility for subsidy on Stafford loans
- NSLDS and transfer eligibility
- Parent borrower eligibility
- School can refuse to originate/certify a loan
- FFEL lender of last resort
- Loan fees

To receive a Stafford Loan or to benefit from a PLUS Loan, a student must meet the general eligibility criteria for all FSA programs, as explained in *Volume 1: Student Eligibility*. In particular, note that a student or a parent who owes a repayment on an FSA grant or is in default on an FSA loan is ineligible for additional FSA funds. In addition, the parents may not receive a PLUS Loan for the student's benefit if the student owes a repayment on an FSA grant or is in default on an FSA loan. However, if the defaulted borrower repays the loan or makes satisfactory arrangements to repay the loan, he or she regains eligibility to borrow from the FSA programs—see Volume 1 of the *FSA Handbook*.

ELIGIBLE PREPARATORY COURSEWORK

Generally, a student must be enrolled or be accepted for enrollment in a degree or certificate program to receive FSA funds. However, there are three exceptions that apply to Stafford and PLUS loans.

- **Undergraduate preparatory work.** A student may apply for a Stafford Loan for up to 12 months of coursework taken in a single consecutive period if the school has documented that the coursework is necessary in order for the student to enroll in an undergraduate degree or certificate program. This category of students may borrow at the first-year undergraduate loan level, and the loan limit is not prorated if the coursework is less than an academic year. Loan limits are explained in Chapter 3 of this volume.

- **Graduate/professional preparatory work.** A student may apply for a Stafford Loan for up to 12 months of coursework taken in a single consecutive 12-month period if the school has documented that the coursework is necessary in order for the student to enroll in a graduate or professional program. This category of students may borrow at the fifth-year undergraduate loan level, and the loan limit is not prorated if the program is less than an academic year.

- **Coursework required for teacher certification.** A student with a baccalaureate degree who is taking coursework necessary for a credential or teacher certification at the elementary or secondary level may apply for a Stafford Loan. The school's records must indicate that the courses taken are required by the state where the student will be teaching. Such students may borrow at the fifth-year undergraduate loan level, and the loan limit is not prorated if the program is less than an academic year.

A student is **ineligible** to receive a Stafford Loan or a Federal Perkins Loan (see the *FSA Handbook: Campus-Based Programs Reference*) while in a medical internship or residency program, unless the internship is part of the school's degree program. This restriction does **not** apply to students in dental internship programs.

SUBSIDIZED AND UNSUBSIDIZED LOANS

The federal government pays the interest on a **subsidized** student loan during in-school status, grace periods, and authorized deferment periods. To qualify for a subsidized Stafford Loan, a student must have financial need.

A borrower unable to qualify based on need for a subsidized Stafford Loan may apply for an unsubsidized Stafford Loan, which is not based on need. Also, a student able to qualify for only a part of the subsidized Stafford Loan limit may apply for an unsubsidized Stafford Loan to cover the EFC and any unmet financial need (up to the annual loan limit).

An **unsubsidized** student loan does not qualify for the interest subsidy that the federal government pays on a subsidized loan during in-school, grace, and deferment periods. Thus, while a student with a $1,000 unsubsidized Stafford will receive the same educational benefit as a student with a $1,000 subsidized Stafford, the cost of repaying the loan will be higher. Note that all PLUS loans are unsubsidized loans.

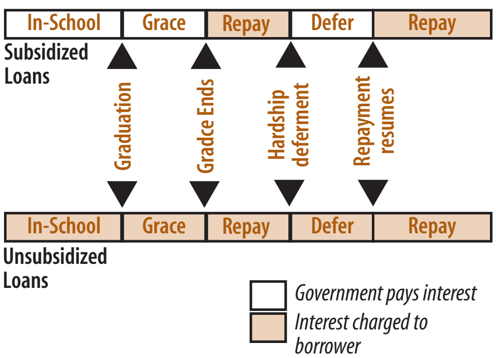
In most cases, the interest that accumulates on an unsubsidized loan will be capitalized and added to the principal balance. A student can reduce interest costs on the loan by continuing to make

Need and religious orders

As explained in **Volume 1: Student Eligibility**, because students who are members of certain religious organizations are considered to have no financial need for FSA program purposes, such students are not eligible for need-based FSA funds. Borrowers may, however, be eligible for unsubsidized Stafford Loans, as well as PLUS Loans (PLUS Loans are unsubsidized.).

Sub and unsub loans

The federal government pays the interest on subsidized Stafford Loans while the borrower is in-school, in the 6-month grace period, or in deferment.



For example, let's say that Holly takes out both subsidized loans and unsubsidized Stafford loans while going to Vincent College. After the 6-month grace period, Holly begins repaying her loans. After 3 years of repayment, she joins the Peace Corps and qualifies for an economic hardship deferment. She serves in Peace Corps for 2 years and resumes repaying her loans, making the last payment 7 years later.

Note that different amounts of interest accrue on loan disbursements made on different dates. If Holly receives $1,000 Stafford loan disbursements on September 10 and January 10 of her first year of college, the first disbursement will accrue interest for four months before interest begins to accrue on the second disbursement.

The difference in accrued interest is even more pronounced between disbursements made in different years of study. If Holly completes her program in four years, her first unsubsidized loan disbursement will have been accruing interest for over 4 years when she enters repayment, while her last disbursement may only have accrued interest for 10 months.

monthly interest payments during periods when the repayment of principal is deferred (in-school, grace, and deferment).

DETERMINING FINANCIAL NEED

Basically, a student's need for a **subsidized** Stafford Loan is his or her cost of attendance minus the Expected Family Contribution, and minus the Estimated Financial Assistance that the student will receive.

Cost of Attendance

Volume 1, Chapter 10 of the *FSA Handbook* explains the components of the **cost of attendance** for the FSA programs. For purposes of Stafford and PLUS loans, it's helpful to remember that the origination fee and the insurance fee (FFEL only) can be included in the cost of attendance.

If you are used to working with the Pell Grant Program, you may be unfamiliar with the treatment of costs for a portion of an academic year. Pell Grant awards are always based on the cost of a student attending a full academic year full-time. For Stafford and PLUS, the costs reflect the student's actual attendance and academic workload. For instance, if a student is only attending one semester of an academic year, the student's costs for tuition and living expenses, etc., would be roughly half that for a student attending both semesters. You may simply prorate the allowance for a 9-month academic year—in this case the cost for one semester would be one-half the cost for a full 9-month academic year—or calculate the cost in any other reasonable way.

Expected Family Contribution (EFC)

The **expected family contribution (EFC)** is based on the family's income and expenses, as reported on the *Free Application for Federal Student Aid* (FAFSA). The EFC is used as the "need analysis" figure for subsidized Stafford loans, but unsubsidized Stafford and PLUS loans do not use the EFC. See *Volume 1: Student Eligibility* for a detailed discussion of how the application process produces the student's EFC.

NEW If the loan period crosses the June 30/July 1 award year boundary, you may use the EFC from either year to determine financial need. Note that the crossover affects the entire loan period, rather than a single payment period as in Pell. For instance, if a student enrolls on January 10, 2003 and the last payment period in his award year will end on August 8, 2003, you may use either award year's EFC to determine the student's Stafford Loan eligibility for the loan period. You must use the same EFC for the Stafford and Campus-based programs, but you can choose to use the EFC from the other award year for the student's Pell Grant award.

As with the cost of attendance, you will need to use a prorated EFC if the student's period of enrollment is going to be shorter

Cost of Attendance

Section 472 of the Higher Education Act of 1965, as amended.

Maximum for Subsidized Stafford:

Cost of Attendance
- Expected Family Contribution
- Estimated Financial Assistance

= Maximum Loan Amount

Maximum for Unsubsidized Stafford and for PLUS:

Cost of Attendance
- Estimated Financial Assistance

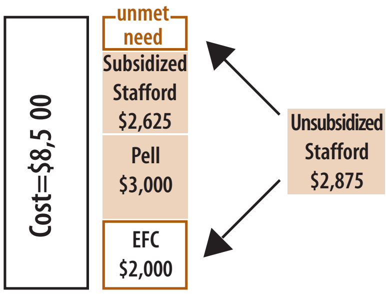
= Maximum Loan Amount

Example of combined subsidized and unsubsidized Stafford

Jen, a first-year dependent student at Reid State U., applies for a Stafford Loan to attend a term beginning in September. Her COA is $12,000, and, based on her need, she qualifies for a subsidized Stafford Loan of $2,000. She may also apply for an unsubsidized Stafford Loan of $625, which is the difference between the amount of her subsidized Stafford Loan ($2,000) and the Stafford Loan limit ($2,625) for a first-year undergraduate. Her parents may borrow a PLUS Loan to cover the remainder of the COA.

Offsetting the EFC Example:

Holly enrolls at Vincent College as a 1st-year independent student with an $8,500 cost of attendance and an EFC of $2,000. She is receiving a $3,000 Pell Grant and the maximum $2,625 subsidized Stafford Loan.



Since unsubsidized loans can replace the EFC, Holly is eligible for $2,875 in unsubsidized Stafford Loan funds. (Her EFC of 2,000 plus unmet need of $875.)

Note that the school can add the loan fees on a Stafford or PLUS loan to Holly's cost of attendance. If the lender is deducting the full 4% in guaranty and origination fees, then the school can add $220 in loan fees to Holly's cost of attendance. Based on the increased cost in this example, Holly would be eligible for an unsubsidized Stafford of $3,095.

than nine months. Prorated EFC figures are calculated by the Department's application processing system, and provided to your school as a part of the ISIR.

Estimated Financial Assistance

The student's **estimated financial assistance** is the amount of aid he or she will receive for the enrollment period covered by the loan. The Pell Grant and most other sources of state, federal, private, and institutional financial aid are considered part of the estimated financial assistance that reduces the student's overall financial need. When certifying a loan, you have to subtract the student's estimated financial assistance from the cost of attendance, regardless of whether the loan is subsidized or unsubsidized.

Most forms of aid are easy to recognize, usually taking the form of scholarships, grants, work, or loans that are awarded on the basis of postsecondary enrollment. But there are two noteworthy government programs that are treated a little differently. **Montgomery GI Bill active duty benefits** (veterans' educational benefits paid under Chapter 30 of Title 38) and **National Service Education Awards (AmeriCorps)** and post-service AmeriCorps benefits are not counted in the estimated financial assistance for subsidized Stafford Loans. However, you *do* include these benefits in the estimated financial assistance when certifying an unsubsidized Stafford or PLUS. (See 34 CFR 682.200(b) and 34 CFR 685.102(b))

Unsubsidized FSA loans and some other loans can be used to offset (substitute for) part or all of the student's EFC for the FSA programs, in effect removing that amount of aid from Estimated Financial Assistance. These loans are:

- Unsubsidized Stafford Loans and PLUS borrowed for that student.
- Loans made by the school to assist the student.
- State-sponsored and private education loans.

Note, however, that any amounts of these forms of aid that exceed the EFC must be counted as estimated financial assistance.

Considering grants and subsidized loans first

The law requires aid administrators to find out whether the student is eligible for certain other FSA programs that would reduce the need for borrowing.

If your school participates in the Federal Pell Grant Program you must determine an undergraduate student's Pell Grant eligibility before certifying a subsidized or unsubsidized Stafford Loan for that student. If the student is eligible for a Pell Grant, you cannot certify a loan until the student has applied for a Pell Grant for the same enrollment period that will be covered by the loan.

In addition, you cannot certify an unsubsidized Stafford Loan without first determining the student's need for a subsidized Stafford Loan. Because of the interest subsidy, the repayment amount for a subsidized Stafford is less than the same amount borrowed as an unsubsidized loan. However, if the amount of the subsidized Stafford is $200 or less and the amount can be included as part of an unsubsidized Stafford Loan, you are not required to certify a separate subsidized loan.

You may certify a PLUS and disburse PLUS funds without first determining the student's Pell Grant and subsidized Stafford Loan eligibility. However, you cannot make a late disbursement of a PLUS Loan unless you have received a *Student Aid Report* (SAR) or an ISIR for the benefiting student before the date the student graduated, withdrew, was expelled, or dropped below half-time enrollment. The SAR or ISIR must contain an official EFC.

PARENT BORROWER ELIGIBILITY

To borrow a PLUS loan for a student, the parent must be the student's biological or adoptive mother or father. The spouse of a parent who has remarried (i.e., the student's stepparent) is also eligible to borrow a PLUS on the student's behalf, if his/her income and assets would be taken into account when calculating the dependent student's EFC. A legal guardian is not considered a parent for any FSA purposes.

A parent may receive a PLUS Loan only to pay for the educational costs of a dependent undergraduate student who meets the eligible student definition. A parent may not borrow a Direct PLUS Loan and a Federal PLUS Loan on behalf of the same student for the same enrollment period at the same school.

A parent must meet the same citizenship and residency requirements as a student. Similarly, a parent who owes a refund on an FSA grant or is in default on an FSA loan is ineligible for a PLUS Loan, unless he/she has made satisfactory arrangements to repay the grant or loan. However, the parent's ineligibility for a PLUS Loan does not affect the student's eligibility for FSA funds. See *Volume 1: Student Eligibility* for more information on these general eligibility criteria.

If the parent borrower has previously borrowed a Stafford or PLUS, he or she must reaffirm any loan amount on which collection activity has ceased, in the same way that is described in 34 CFR 682.201(a)(4) for student borrowers. If the parent had a prior Stafford loan that was cancelled for total and permanent disability, the parent must obtain a physician's certification and provide a statement as described in 34 CFR 682.201(a)(6). Finally, a parent is

Parent Eligibility for PLUS

See 34 CFR 682.201(b)
See 34 CFR 685.200(b)

Student must be eligible for FSA for parent to borrow PLUS

A parent cannot borrow a PLUS loan on behalf of a student who does not meet FSA eligibility requirements. For instance, a PLUS loan cannot be made to the parent if the benefiting student is not making satisfactory progress.

Parent SSN and Certifications

To receive a PLUS Loan, a parent must provide his or her Social Security Number as well as that of the student on whose behalf the parent is borrowing. Like a student borrower, a parent borrower must also submit a Statement of Educational Purpose. He or she does not, however, have to complete a Statement of Selective Service Registration.

Authority to refuse to originate/certify a loan
FFEL—34 CFR 682.603
Direct Loans—34 CFR 685.301

not eligible for a PLUS loan if the federal government holds a judgment lien on his/her property.

Adverse Credit History

A parent with an adverse credit history is prohibited from obtaining a PLUS Loan unless the parent meets additional criteria, discussed below. The lender or the Direct Loan Origination Center obtains a credit report on each applicant for a loan from at least one national credit bureau. An applicant is considered to have an adverse credit history if –

- he or she is 90 days or more delinquent on any debt, or
- during the 5 years preceding the date of the credit report, he or she has been determined to be in default on a debt, his or her debts have been discharged in bankruptcy, or he or she has been the subject of foreclosure, repossession, tax lien, wage garnishment, or write-off of an FSA debt.

A lender is permitted to establish a more stringent definition of adverse credit history than these regulatory criteria. However, a parent cannot be rejected for a PLUS Loan on the basis of having no credit history. In other words, the absence of a credit history **cannot** be construed as an adverse credit history.

A parent with an adverse credit history can qualify for a PLUS Loan by securing an endorser who doesn't have an adverse credit history. The endorser for this purpose may not be the dependent student for whom the parent is borrowing. Instead of securing an endorser, a parent may appeal a determination of adverse credit history to the lender by documenting extenuating circumstances. The lender has the final decision on whether or not to make a loan to the parent.

A student whose parent cannot obtain a PLUS loan is allowed to borrow additional unsubsidized Stafford amounts, if your school participates in the PLUS program (See Chapter Three, which follows.)

REFUSING TO ORIGINATE/CERTIFY A LOAN

A school may choose not to certify or originate a Stafford or PLUS loan, or may certify it for a reduced amount. Such decisions must be made on a case-by-case basis and must not be part of a pattern or practice that denies access to loans because of borrowers' race, gender, color, religion, national origin, age, disability status, income, or selection of a particular lender or guaranty agency. You must notify the borrower in writing of the reason for the decision, and keep documentation supporting the decision in the student's file.

NEW For example, your school cannot engage in a policy of certifying Stafford loans only in the amount needed to cover the school charges, or a policy of limiting unsubsidized Stafford borrowing by independent students.

FFEL LENDER OF LAST RESORT

A student who is otherwise eligible for a subsidized Stafford Loan and, after not more than two rejections, has been unable to find an FFEL lender willing to make such a loan, should contact the guaranty agency in his or her state of residence or the guaranty agency in the state in which the student's school is located. The guaranty agency either must designate an eligible lender to serve as a lender of last resort (LLR) or must itself serve in that capacity and must respond to the student within 60 days. An LLR cannot make a loan that exceeds the borrower's need, nor is it required to make a loan for an amount less than $200. The LLR, as with any other lender, may refuse to make the loan if the borrower fails to meet the lender's credit standards. Each guaranty agency is required to develop rules and procedures for its LLR program.

LOAN FEES

For FFEL, the lender must pay an origination fee of 3% of the principal amount of the loan to the federal government. These fees were instituted in 1981 as a means of defraying the cost of the loan programs. The lender is authorized to deduct this fee from the loan disbursements. Thus, if a lender deducts the 3% origination fee from a $2,000 Stafford Loan that is to be paid in two installments, the student will receive payments of $970 and $970. (However, NSLDS will show the full value of the loan, $2,000, and report each disbursement as $1,000.)

In the FFEL program, the guarantor is also authorized to collect an insurance fee (not to exceed 1% of the loan). If the guarantor charges an insurance fee for its Stafford and PLUS loans, the lender may pass on the charge to the borrower.

The Direct Subsidized and Unsubsidized Loans include a "loan fee," which is currently 3% of the principal amount of the loan. In Direct Loans, the loan fee for a PLUS is 4%.

When packaging, the amount of any loan fees that were deducted from the loan must be included in the student's cost of attendance. (See the discussion of the Cost of Attendance in Volume 1, Chapter 7.)

List of Guaranty Agencies

The Department maintains a current listing of guaranty agencies on the Web at:
www.ed.gov/Programs/bastmp/SGA.htm

Reducing the origination fee

The lender may choose to deduct less than the full amount of the origination fee from Stafford loan disbursements, but it must observe a consistent policy for *all* of the Stafford Loans that it makes to borrowers who live in the same state or attend school in the same state.

Aside from the borrower's state of residence or the state where the school is located, the lender is only permitted to make a distinction for two categories of borrowers—it may choose not to deduct the full origination fee for its borrowers who qualify for a subsidized Stafford Loan or who have an EFC low enough to qualify for a Pell Grant.

The lender must apply the same policy to its subsidized and unsubsidized Stafford Loans.

(See 34 CFR 682.202(c))

Determining the Loan Period and Amounts

CHAPTER 3

The rules for awarding Stafford and PLUS loans are a little different than for Pell Grants and other FSA programs. In particular, the definitions of a "loan period" and the disbursements within that period may not always correspond to the academic year and payment period measurement used for Pell. Proration of loans is only required for a program (or the remaining portion of a program) shorter than an academic year and the calculation is different than in other programs.

DETERMINING THE LOAN PERIOD

It's important to define the period of enrollment or loan period at the outset, because the length of the loan period will determine the timing and amount of disbursements. If your school uses academic terms (such as semester, trimester, quarter or nonstandard terms), the loan period must coincide with one or more of its academic terms. Loan periods for schools that do not use terms are generally based on the length of the program or academic year.

For programs using terms and credit hours, the **minimum** loan period is a single academic term. As an example, if a student enrolls in a fall semester to complete his/her requirements for graduation, you may certify a loan for that term alone. (Remember, however, that the loan amount must be based on reduced costs and EFC for that term, rather than for the full academic year.)

For a clock-hour school or a credit-hour school that does not use terms, the **minimum** period for which the school may certify a loan is the shortest of the following three periods:

- the academic year as defined by the school (but no less than 30 weeks of instruction providing 900 clock hours, 24 semester hours, or 36 quarter hours);
- the length of the student's program at the school (see sidebar on minimum program length); or
- the remaining portion of the student's program when the program exceeds the school's academic year.

In the case of a student who has already completed some of the coursework to earn a degree or certificate (*e.g.*, a transfer student or a student who is re-enrolling after withdrawing), you may certify the loan for the remaining period of study at your school.

Academic measurements

For purposes of the FFEL/DL programs only, the shortest eligible programs are programs at a proprietary school or a postsecondary vocational school that provide at least 10 weeks of instruction and at least 300 clock hours, 8 semester hours, or 12 quarter hours.

This discussion assumes that your school has already established its academic measurements. If you have not already done so, see Volume 2 for a discussion of eligible programs, academic years, payment periods, and conversion of clock hours/credit hours.

Loan period

The period for which a Stafford, SLS, or PLUS loan is intended. The period of enrollment must coincide with a *bona fide* academic term established by the school for which institutional charges are generally assessed (e.g. semester, trimester, quarter, length of the student's program or academic year). The period of enrollment is also referred to as the loan period. (Definition from 34 CFR 682.200)

Minimum and Maximum Loan Periods

→ Maximum = generally school's academic year but not more than 12 months.
→ Minimum (term/credit hour program) = one academic term
→ Minimum (clock-hour or non-term program) = lesser of academic year, program length, or remaining portion of academic year.

Annual Loan Limits: Basic Principles

→ Annual loan limits are for an academic year, which is not always tied to fixed calendar dates (unlike Pell, which bases its annual limit on a July 1-June 30 award year).

→ For a term program, you may use either a Scheduled Academic Year (usually Fall-Spring with a separate summer session) or a "Borrower-based Academic Year" that varies from the student norm (such as Summer-Fall). You may use both the SAY and the BBAY at different times during the student's enrollment.

→ For a non-term program, you may ONLY use a Borrower-based Academic Year.

→ The loan period does not have to match the academic year.

→ If a loan period crosses between award years (June 30/July1), you may use the EFC for either application year to determine the student's financial need.

→ The calendar period associated with the academic year (and credit/clock hours for a nonterm program) must elapse before the borrower is eligible for a new annual loan limit.

→ The student's maximum annual loan limit increases as the student progresses to higher grade levels.

→ The student will become eligible for a higher loan amount if he/she progresses to the next grade level during the loan period.

NEW ➧ Stafford/PLUS at multiple schools

Unlike Pell Grants, it is possible for a student to get a Stafford (and the parent to receive a PLUS) at more than one school for the same period. But the second school would have to eliminate living costs from the cost of attendance, because those were already accounted for in the first loan. The second school would also have to count the loan at the first school as "estimated financial assistance." If the second school only finds out about the situation later, and it turns out the student received more than the annual maximum, the second school should adjust its aid package to the student to eliminate the overborrowing. If the school is unable to eliminate the overpayment, it must report it to the lender. The lender will demand payment from the borrower, who can pay the amount in full or make arrangements satisfactory to the lender to repay that amount over a longer period.

The **maximum** loan period is generally the school's academic year but cannot exceed a 12-month period. It is possible, but not typical, to have more than one loan in an academic year.

ACADEMIC YEAR

As we've seen, the loan period is often equivalent to an academic year. Briefly, an academic year is a period that contains at least 30 weeks of instructional time during which a full-time student is expected to complete at least 24 semester or trimester hours or 36 quarter hours at a school measuring program length in credit hours, or at least 900 clock hours at a school measuring program length in clock hours. If you are establishing the academic year and payment periods for a new educational program at your school, please review Volume 2 of the *FSA Handbook: Institutional Eligibility and Participation,* which includes a more detailed treatment of the academic year, payment periods, and related program measurements (Chapters 1 and 2).

The academic year is also used when determining the student's annual loan limits. The annual limit for Stafford Loans is based on an academic year rather than a calendar award year. Once the student has reached the annual loan limit, he or she cannot receive another Stafford Loan until he or she begins another academic year, or progresses to the next grade level. Note that the student must complete 30 weeks of instruction, as well as the clock/credit hours in the academic year, to receive a new Stafford Loan.

Two types of academic years for loans

There are two types of academic years a school can use in determining a period of enrollment or when another year will begin for the student: a scheduled academic year (SAY) or a borrower-based academic year (BBAY). Clock-hour and non-term credit-hour programs *must* use borrower-based academic years. Only term-based credit-hour programs can use SAYs. However, you may elect to use a borrower-based academic year for a term-based credit-hour program if the program's academic year provides at least 30 weeks of instruction (unless the Department grants a waiver for an academic year of less than 30 weeks).

For a term-based credit-hour program, the school can use BBAYs for all its students or just for students enrolled in certain programs, or it may use BBAYs on a student-by-student basis. The school can even alternate BBAYs with SAYs for a student, but the academic years must not overlap. A school that has these choices for academic year standards must have a written policy that explains how it applies these options when calculating loan eligibility.

Scheduled Academic Year

An SAY is a fixed period of time that generally begins and ends at the same time each calendar year (for example, beginning on the first day of the fall semester and ending on the last day of the spring semester). The SAY generally corresponds to the academic year or calendar that is published in the school's catalog or other materials. An SAY must meet the statutory requirements of an academic year, as described in the *FSA Handbook: Institutional Eligibility and Participation.*

Treatment of summer terms as part of a Scheduled Academic Year

For a program that uses SAYs, a summer term may be part of the academic year that precedes that term (that is, it may be a "trailer"), or it may be part of the academic year that follows that term (that is, it may be a "header"). Your school can establish a policy that designates its summer term as either a trailer or header of the Scheduled Academic Year, or it can make different designations for different educational programs.

You may also designate the summer term as a trailer or header for each student on a case-by-case basis. However, if a student in a summer school session that overlaps two award years is also receiving campus-based aid, you must use the same EFC (from the same application year) for both the campus-based aid and the FFEL/DL loan.

The choice of the application year to be used for need analysis purposes can be different than the designation of the term as a header or trailer for purposes of establishing the academic year for the loan. For instance, you may have a policy that treats the summer term for 2002 as a header to the academic year for the loan, but you may make an exception and use the EFC from the 2001-2002 FAFSA to determine the student's financial need.

Summer mini-sessions can be grouped together as a single trailer or header, or they can be treated separately and assigned to different SAYs. If the summer mini-sessions are grouped and treated as a single term, the summer cost of attendance cannot include costs for a mini-session for which the student was not enrolled.

Borrower-based Academic Year (BBAY)

As noted previously, a school must use BBAYs for clock-hour and non- term credit-hour programs; the school may use either type of academic year for term-based credit-hour programs where the academic year provides at least 30 weeks of instruction.

A BBAY is not a fixed period of calendar time like an SAY. Instead, the BBAY's beginning and end dates depend on an individual student's enrollment and progress. For example, a nonterm school that has new students beginning enrollment every month would use a BBAY for each student that begins in the month the student enrolls. A term-based school could opt to use a BBAY for a student attending the spring and summer terms, rather than using an SAY that always begins with the fall semester. Like an SAY, the BBAY must meet the minimum statutory requirements for an academic year (unless a summer term is included or the Department grants a waiver for a term-based credit-hour program).

Scheduled Academic Year

Only used for programs using credit hours and terms. Typically, the loan will be made in multiple disbursements, with "payment periods" matching the terms in the program, as with Pell disbursements.

Academic year = 2 semesters (2 payment periods)

1st pp	2nd pp
Fall	Spring

Academic year = 3 quarters (3 payment periods)

1st pp	2nd pp	3rd pp
Fall	Winter	Spring

Scheduled Academic Year Example —

The Springfield Academy offers a two-year program measured in semesters and awarding credit hours. It defines its academic year as two semesters providing 30 weeks of instruction. Springfield has Fall, Spring, and Summer sessions, but most of its students do not attend the summer session. Therefore, Springfield Academy uses a Scheduled Academic Year that starts September 7 and concludes May 21, and it certifies most loans for that period of enrollment.

In a program using terms and credit hours, the BBAY must include the same number of terms as the SAY the school would otherwise use (not including any summer session as a "trailer" or "header"). The BBAY may include terms the student does not attend if the student could have enrolled **at least half time** in those terms. However, unlike an SAY, the BBAY must begin with a term in which the student actually enrolled. Also, any mini-sessions (summer or otherwise) that run consecutively **must** be combined and treated as a single term.

For a clock-hour or nonterm program, the BBAY begins when the student enrolls. Because the BBAY must meet the minimum statutory requirements for an academic year, the BBAY must contain at least 30 weeks of instructional time and the appropriate number of credit or clock hours (24 semester or trimester hours, 36 quarter hours, or 900 clock hours). The BBAY does not end until the student has completed the number of weeks **and** the number of hours in the academic year. A student who is attending less than full time will take longer to complete the academic year than a full-time student.

In many non-term programs, students are allowed to progress at an individual pace. Thus, one student might complete 900 clock hours in 26 weeks, another in 30 weeks, and a third student in 34 weeks. The 30-week academic year minimum is based on the length of time it normally takes a full-time student to complete the coursework for the academic year. Thus, if most of the full-time students take 30 weeks to complete a 900 clock hour program, you do not have to pro-rate the loan amount for the occasional student who completes the program in less than 30 weeks.

Borrower Based Academic Year Example — Nonterm

Springfield Academy also has an 1800 clock-hour extension program, and defines its academic year as 900 clock hours and 30 weeks. The BBAY always begins with the student's actual enrollment date, whether programs start each month, quarter, etc. An enrolling student may receive two Federal Stafford Loans during the program (provided all eligibility criteria are met) because the program exceeds one academic year. The period of enrollment for the first loan would be the time it will take the student to complete 900 clock hours. The period for the second loan would be the time it takes to complete the final 900 hours. Note that the student cannot receive the second loan until he/she has completed the first 900 hours of the program AND 30 weeks of instruction.

BBAY Examples at Term Schools

The BBAY can also be used by credit-hour term programs—especially in cases where a student is enrolling in a different sequence of terms than the Scheduled Academic Year for that program.

For instance, in example 1a, the Fall and Spring term constitute the school's Scheduled Academic Year. If the student attends summer session at the school, the aid administrator can elect to treat that term and the next Fall as a Borrower-Based Academic Year. In that case, the following Spring and Summer would also constitute a Borrower-Based Academic Year.

The maximum loan limit for an academic year applies to each of these academic years. If these were the first three years of study for a dependent student and the student progressed a grade level each academic year, he/she would be eligible for maximum Stafford amounts of $2,625, $3,500, and $5,500.

A student doesn't have to attend all of the terms in a BBAY, but the BBAY cannot begin with a term that the student doesn't attend. Thus, in example 1c, if the student does not attend a term that would have been the beginning of a BBAY, then the student's next academic year (either SAY or BBAY) cannot begin until the next term. In examples 1a and 1b, the Summer session can be the beginning of Year 2 of a BBAY for the student.

1. BBAY where 2 semesters =academic year

1a.

Fall	Spring	Summer	Fall	Spring	Summer
Year 1: SAY		Year 2: BBAY		Year 3: BBAY	

1b.

Fall	Spring	Summer	Fall	Spring	Summer
Year 1: SAY		Year 2: BBAY		Year 3: BBAY	

1c.

Fall	Spring	Summer	Fall	Spring	Summer	Fall
Year 1: SAY		Year 2: BBAY			Year 3: BBAY	

The same concepts apply to quarter-term programs. For instance, in example 2, the Fall, Winter, and Spring terms constitute the school's Scheduled Academic Year. If the student attends summer session at the school, it can be the first term of a Borrower-Based Academic Year that includes the following Fall and Winter terms.

2. BBAY where 3 quarters =academic year

Fall	Winter	Spring	Summer	Fall	Winter
Year 1: SAY			Year 2: BBAY		

ANNUAL LOAN LIMITS

Stafford limits for dependent undergraduates

A dependent student enrolled in a program of study that is at least an academic year in length may borrow combined subsidized and unsubsidized loans not to exceed an annual total of–

- up to $2,625 for a *first-year student*,
- up to $3,500 for a *second-year student*, or
- up to $ 5,500 for a *third-, fourth-*, or *fifth-year undergraduate*, or a student who already has an associate or baccalaureate degree and who is enrolled in an undergraduate program that requires an associate or baccalaureate degree for admission.

These loan limits represent the total of all subsidized and unsubsidized Stafford Loans a dependent undergraduate student may borrow at each level of study. A dependent undergraduate student who takes out both subsidized and unsubsidized Stafford Loans must not exceed the annual and aggregate limits allowed under the Stafford Loan Program. An unsubsidized Stafford Loan is also limited to the difference between the borrower's COA for the loan period and the borrower's EFA (which includes any subsidized Stafford Loan amount he or she will receive).

Grade Level

As shown above, the annual loan limit for Stafford Loans increases as a student progresses in his/her studies. A student's grade level for loan limit purposes is set according to the school's standards for the time normally required to achieve that grade level. However, if the school determines a program normally can be completed in two years of full-time study, a student in that program can never receive more than the second-year annual loan limit of $3,500 in any given year, no matter how long it takes the student to finish.

A student who has already borrowed up to the annual limit within an academic year can receive additional loan funds if the annual limit increases because the student progresses to a grade level with a higher limit (or because his or her dependency status changes to independent).

For instance, if a dependent student was classified as a 2nd year student in the fall, he/she might have received as much as $1,750 in the first Stafford disbursement. If the student achieved 4th-year status based on the coursework completed in the fall semester, the student would now have be eligible for the $5,500 Stafford annual limit. If the student had sufficient financial need, you could disburse the difference between the amount the student already received and the new annual limit – $3,750 – in the spring term.

Annual and Aggregate Loan Limits
34 CFR 682.204 FFEL
34 CFR 685.203 DL
"Dear Colleague" letter GEN 97-3

NEW ➧ Annual limits for students who change programs or transfer
A student who takes out a loan for an academic year, but then changes programs at your school or transfers to another school, may not receive more than the original annual loan limit until 30 weeks have elapsed from the beginning of the original loan period.
If the academic year at the first school overlaps with the academic year at the new school, and the new school operates on a non-term calendar, the student is restricted to the original annual loan limit until the completion of the first academic year at the new school. For instance, if the student enrolls in a 900 clock-hour program that runs from Jan 5 to June 15, but then transfers into a 2-year quarter-term program on April 7, the Stafford amount for the first academic year (the first three quarters) in the new program cannot exceed $2,625, minus the amount received at the first school.
If the student is transferring to a term school, the rules are slightly different. For instance, if the student had attended Spring semester as the first part of a BBAY at one school, and then transferred to a term school, beginning in the summer, the student could only receive the remainder of the annual loan amount in the summer term. If at least 30 weeks have elapsed since the start of the BBAY at the first school when the fall term begins at the second school, the student would be eligible for a new annual loan maximum for the fall and spring terms.

Grade level progression
While the law defines minimum coursework for an academic year, it doesn't define how much coursework a student must complete to progress from one grade level to another. A reasonable approach would be to base grade levels on the number of credits required for the program, divided by the number of academic years it takes a typical student to earn that number of credits. For instance, if your school has a baccalaureate program that requires 120 semester hours of work and is typically completed in four years, then you might use a standard of 30 hours completed at each grade level.

In all cases, the student may borrow the difference between the amount already borrowed within the academic year and the student's new loan limit. Usually, the increase in the loan amount can be made as an adjustment to the student's existing loan rather than making a new loan.

Note that for a nonterm program, the student will never progress to a higher grade level within an academic year and, thus, will only have a change in the loan limit if his or her dependency status changes. In a nonterm program that is longer than an academic year, the student moves to a higher grade level only when he or she completes the BBAY.

Transfers & grade level

An associate or bachelor's degree gets counted towards the grade level, if it is a pre-requisite for enrolling in an eligible program. Thus, a student with an associates degree who enrolls in a 4-year school is eligible for 3rd year loan limits if the associates degree is required for entry into the eligible program. However, if your school does not require an associate's degree for admission, the student would only be eligible for first-year loan limits.

Credits awarded for "life experience" do not affect the grade level—only academic credits earned for coursework.

A student who is transferring from a certificate program always starts at the first-year level for Stafford, even if the second program requires completion of the other program for enrollment. For instance, if a school admits a transfer student from a certificate program and accepts 900 clock hours that the student earned towards its 1500-hour program, the student would only be eligible for the first-year loan limits, even if other students in the program are eligible for second-year loan limits after completing the first 900 hours of the program.

New regulatory language specifies that a school may not link separate, stand-alone programs to allow students to qualify for higher annual loan limits. For instance, your school may not designate a 900 clock-hour program as a prerequisite for another program to make students in the second program eligible for second-year loan limits. (However, a student enrolled in an 1800 clock-hour program would be eligible for second-year loan limits after completion of the first academic year. (See 34 CFR 682.204/685.203)

Note that the "Eligibility and Certification Approval Report" lists "1-year" as the highest educational program offered by the school if its longest program is 1 year or more, but less than two years in length. Students in programs longer than 1 year can be paid as 2nd year students even though the ECAR lists the school's highest offering as "1-year." For instance, if a student enrolled in a 1500-hour program, he/she would be eligible for the 2nd-year loan limits after completing 900 clock hours and 30 weeks of instruction. (However, the loan limit would have to prorated for the final 600 hours.)

Grade level in non-term program is dependent on 30-weeks of instruction

A student must complete 30 weeks of instruction, in addition to the academic credit, in order to advance to the next grade level in a non-term program. For instance, a student who earns 36 quarter-credits over 24 weeks could not progress to the next grade level until another 6 weeks of instruction are completed.

More than one loan per grade level

If the student is enrolled at the same grade level and a full academic year has elapsed, the student may be eligible for a new annual maximum amount. For instance, if the student maintains satisfactory academic progress, he or she could conceivably receive two $2,625 Stafford loans while completing the first year of the program.

However, your school has the authority to set a limit on the number of times a student can receive the maximum annual loan amount at one grade level, provided that the policy is the same for all students in the program.

NEW ➧ Remedial work & grade level

Remedial coursework can be counted towards the student's grade level progression, but only if the school's written and officially approved academic grade level progression policy specifies that remedial coursework can be counted for this purpose. Example: School requires that the student complete 30 semester hours to progress to second-year grade level, and specifies that up to 10 of the hours may be in the form of remedial coursework.

Students returning for second degree

If a student with a baccalaureate degree enrolls in another baccalaureate program, his/her loan limits would be based on the amount of work that the school counts towards satisfying the requirements of the new program. For instance, if your school decides to accept 30 hours of a student's work in her previous baccalaureate program towards the requirements for a BS in Chemistry at your school, then the student would be eligible for second-year undergraduate loan limits.

Increased Stafford limits for undergraduates without access to PLUS
FFEL—see 34 CFR 682.204(d) and 34 CFR 682.201(a)(3)
DL—see 34 CFR 685.203(c)

Independent undergraduate student example
Dottie is a first-year independent undergraduate student at Ferrar's Institute. Her COA is $9,500. Dottie qualifies for a subsidized Stafford Loan of $1,500. She may apply for an unsubsidized Stafford Loan of $5,125 ($1,125 remaining under her initial Stafford Loan limit, plus a $4,000 unsubsidized Stafford Loan). Her total loan limit for her subsidized Stafford Loan and her unsubsidized Stafford Loan is $6,625.

NEW ➧ Additional loan eligibility for dependent students
➔ A school that doesn't participate in the PLUS program may not award additional Stafford unsubsidized loan funds to dependent students based on parents' inability to get PLUS. (Effective for loan periods beginning on or after July 1, 2000.)
➔ A school can refuse to certify a dependent student for additional Stafford based on a PLUS loan denial if the parent could have gotten a loan from an FFEL lender, but "shopped around" to find a lender who would refuse to make a loan.

Graduate and Professional Limits
See 34 CFR 682.204(a)(5), (c)(2) and 685.203(a)(5), (c)(2)(v)

Increased Stafford limits for independent students and students whose parents have been denied PLUS

Independent undergraduate students may borrow unsubsidized loans with additional loan limits. The additional loan limits also apply to dependent undergraduate students whose parents are unable to borrow PLUS loans due to exceptional circumstances. The regulations give several examples of possible exceptional circumstances affecting the parents' ability to borrow—adverse credit history, incarceration, or income limited to public assistance and disability benefits. Another exceptional circumstance might be if the parents' whereabouts are unknown. However, the parents' refusal to take out a PLUS loan does not constitute an exceptional circumstance.

The following unsubsidized loan limits may be added to the borrower's combined subsidized and unsubsidized loan limits. An independent undergraduate student enrolled in a program of study that is at least an academic year in length may borrow additional unsubsidized loan amounts not to exceed an annual total of–

- up to $4,000 for a *first-* or *second-year student*,
- up to $5,000 for a *third-*, *fourth-*, or *fifth-year undergraduate* (or a student who has an associate or baccalaureate degree that is required for admission into a program and who is not a graduate or professional student).

For instance, an independent student in the second year of study would be eligible to borrow a total of $7,500 in subsidized and unsubsidized loans.

Stafford Loan limits for graduate and professional students

The subsidized loan limit for a graduate or professional student is $8,500 per academic year. The additional unsubsidized loan limit for graduate or professional students is $10,000 per academic year. This sounds simple enough, but there are academic variations in some programs that may make it difficult to distinguish whether a student is eligible for the higher loan limits.

NEW ➧

The regulations define a graduate/professional student as a student who–

- is enrolled in a program that is above the baccalaureate level or leads to a first professional degree,
- has completed the equivalent of at least 3 academic years of full-time study at an institution of higher education, and
- is not receiving undergraduate aid as an undergraduate student for the period of enrollment. (34 CFR 682.200)

The school's classification of the student for enrollment purposes is the first criteria: a student in an undergraduate program can't get the graduate loan limits based on taking graduate coursework as a part of the undergraduate program.

On the other hand, graduate students who are taking some undergraduate coursework are eligible for the graduate loan limits if they are enrolled at least half-time in courses (either graduate or undergraduate) that can be applied to the graduate program requirements. However, the student must already be admitted into the graduate program—a student with a bachelor's degree who is taking preparatory work for graduate school is not eligible for graduate loan limits.

Stafford Loan limits for coursework required for teacher certification/other programs

For students who have baccalaureate degrees and are completing coursework necessary for a professional credential or teacher certification (certification from a state that is required for employment as a teacher), the annual loan limits are $5,500 in subsidized Stafford Loans and $5,000 additional in unsubsidized Stafford Loans.

The law also sets annual loan limits for a course of study that is necessary for enrollment in an undergraduate degree or certificate program: $2,625 (subsidized) and $6,625 (total). The length of the course of study may not exceed 12 consecutive months.

PLUS Loan limits

A PLUS Loan may not exceed the student's estimated COA minus other financial aid awarded for the period of enrollment. This is the only borrowing limit for PLUS Loans.

NEW Combined undergraduate/ graduate programs

Some programs combine undergraduate and graduate study, so the 3 undergraduate years may be a part of the same program as the period of graduate study. For instance, in a five-year program, the school may define the first three or four years of study as being undergraduate level. Or in the case where the school admits a student into a 5-year program leading to a graduate degree, accepting 60 credits for prior education coursework, the student would have to complete the first of his/her 3 years in the program before reaching graduate/professional status for loan purposes.

There can be even more complicated "dual degree" program scenarios where the school decides at what point the student has achieved graduate status, based on the definition of a graduate/professional student. To simplify matters, you may designate when students in a given program are considered graduate students, rather than tracking the individual courses a student is taking. (Exceptions can be made on a case-by-case basis—your decision should be consistent with your school's overall treatment of the student's graduate status.)

PLUS Loan Limits

See 34 CFR 682.204(h) and 685.203(f)

When and when not to prorate

You must prorate a Stafford Loan if the student is enrolled in a program shorter than an academic year, or if the remaining portion of the program is shorter than an academic year.

Stafford Loan proration

34 CFR 682.204(a), (d) FFEL
34 CFR 685.203(a), (c) Direct Loans

Note on fractions and decimals for prorating Stafford Loans

It is acceptable to convert the fraction to a decimal and then multiply the annual loan limit by the decimal, but this is not a requirement. You may still choose to multiply the annual loan limit by the original fraction. However, you should be consistent in the method you use, since the fraction and decimal calculations sometimes result in slightly different prorated loan limits. (The decimal method will generally—if not always—result in an amount that is equal to or slightly higher than the amount calculated using the original fraction.)

PRORATED ANNUAL LOAN LIMITS FOR STAFFORD LOANS

Generally, a dependent or independent undergraduate may borrow up to the annual limit applicable to the student's year in school. However, the maximum amount an undergraduate student may borrow must be prorated, in certain situations. **PLUS Loans and loans for graduate or professional students are not subject to proration.**

There are two situations where you must prorate the annual limit for subsidized and unsubsidized Stafford Loans:

- when a borrower is enrolled in a program that is shorter than a full academic year, and
- when a borrower is enrolled in a program that is one academic year or more in length, but is in a remaining period of study that is shorter than a full academic year.

If a student drops or adds a course after you have originated a prorated loan, you **may** readjust the loan amount but you are not required to do so. Of course, a student who drops courses must still be enrolled **at least half time** to be eligible for any loan amount.

Please bear in mind that proration does not necessarily affect the amount of the loan. For instance, if a student's prorated loan limit is $2,100, but the student was only eligible for a $2,000 subsidized Stafford Loan based on costs, EFC, and other aid, then the proration would not affect the amount of the subsidized Stafford Loan.

Prorating loans for programs of study shorter than a full academic year

When a student is enrolled in an academic program that is shorter than a full academic year in length, you must use a proportional proration that is based on the *lesser* of —

$$\frac{\text{Number of semester, trimester, quarter or clock hours enrolled}}{\text{Number of semester, trimester, quarter or clock hours in the academic year}}$$

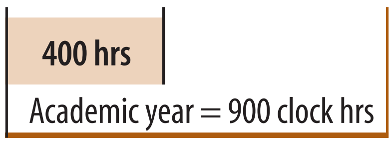
or

$$\frac{\text{Number of weeks enrolled}}{\text{Number of weeks in the academic year}}$$

You may express the resulting fraction as a decimal to see more easily which is less or to calculate the prorated limit. The smaller fraction is then multiplied by the appropriate annual loan limit. The result is the prorated loan limit for the student.

Proration examples for programs shorter than an academic year

Program = 400 clock hrs

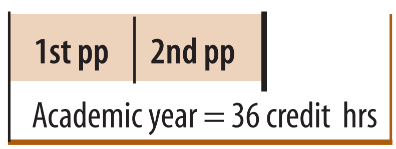


Jill is a dependent student enrolled in a 12-week program at Hancock Career College. HCC defines the academic year for this program as 900 clock hours providing 30 weeks of instruction. Measured in clock hours, Jill's program is 400 clock hours long.

To determine the maximum loan amount she can borrow, convert the fractions based on weeks (12/30 = .40) and hours (400/900 = .44) to decimals. Multiply the smaller decimal (.40) by the first-year annual loan limit: $2,625 x .40 = $1,050.

The maximum combined subsidized and unsubsidized loan amount Jill can borrow for the program is $1,050.

Program = 24 quarter hours



Morgan is an independent student enrolled in a program at Hancock Career College that provides 24 quarter hours and 20 weeks of instruction. HCC defines the academic year for this program as 36 quarter hours providing 30 weeks of instruction.

To determine the maximum loan amount she can borrow, convert the fractions based on weeks (20/30 = .67) and quarter hours (24/36 = .67) to decimals. Multiply the smaller decimal (in this case, both are .67) by the first-year annual loan limits for subsidized and unsubsidized Stafford:

$6,625 x .67 = $4,439 total Stafford
$2,625 x .67 = $1,759 subsidized

The maximum combined subsidized and unsubsidized Stafford amount Morgan can borrow for the program is $4,439, with the subsidized loan amount limited to $1,759.

Prorating loans for remaining periods of study shorter than an academic year

You must also prorate loans for students enrolled in remaining periods of study shorter than an academic year. This situation arises when a student is enrolled in a program that is one academic year or more in length, but is in a remaining period of study that is shorter than an academic year.

Proportional proration is used in all cases of remaining periods of study less than a full academic year (see definition below) and is always based on:

$$\frac{\text{Number of semester, trimester, quarter or clock hours enrolled}}{\text{Number of semester, trimester, quarter or clock hours in the academic year}}$$

This fraction is multiplied by the appropriate annual loan limit to determine the prorated loan limit. There is no comparison of weeks and hours. Hours are always used.

At a **term-based credit-hour** school (where the academic year is measured in semesters, trimesters, quarters, or other terms), a remaining period of study is considered shorter than an academic year if the remaining period consists of fewer terms than the school's scheduled academic year. For example, a student might have completed two academic years of study at a community college and received two Stafford Loans, but need to attend an additional quarter term to complete his/her program requirements. The final quarter term would fall in a new academic year, and thus the loan maximum would have to be prorated, because the remaining period of study is less than a full academic year. Terms within the same academic year as the student's final term are considered part of the final period of study, even if separated from the final term by a term in which the student is not enrolled.

At a **term-based clock-hour** school (where the academic year is measured in semesters, trimesters, quarters, or other terms), a remaining period of study is considered shorter than an academic year if the final period consists of fewer terms than the school's scheduled academic year **or** fewer clock hours than the minimum statutory requirement for a full academic year. As with credit-hour terms, all terms within the same academic year are considered part of the final period of study, even if separated from the final term by a term in which the student is not enrolled.

At a **non-term** school (where programs are measured only in clock or credit hours), a remaining period of study is considered less than an academic year if the remaining period consists of fewer clock or credit hours than the minimum statutory requirement for a full academic year.

Proration examples for remaining period less than an academic year

Academic year= 3 quarters
Remaining period = 1 quarter

Fall	Winter	Spring
Academic year = 3 quarters		

Fall	Winter	Spring

Fall	Winter	Spring

Rudy has attended 6 quarters in a 2-year program at Beulah Community College, but to finish the program, he needs to attend an additional quarter as a half-time student (6 quarter hours). Rudy is a dependent undergraduate student, and BCC defines its academic year as 36 quarter hours and 30 weeks of instruction.

To determine the prorated Stafford loan limit, convert the fraction based on hours (6/36 = .17) to a decimal. Multiply this decimal by the second-year undergraduate annual loan limit: $3,500 x .17 = $595.

Academic year= 2 semesters
Remaining period = 1 semester

Fall	Spring	Summer

Fall	Spring	Summer

Rudy transfers to a BA program at Lacy Springs College. By taking 18 hours a semester, he will be able to graduate in the Fall term of his second year. Rudy is a dependent undergraduate student, and Lacy Springs defines its academic year as 24 credit hours providing a total of 30 weeks of instruction.

To determine the prorated Stafford loan limit, convert the fraction based on hours (18/24 = .75) to decimal. Multiply this decimal by the fourth-year undergraduate annual loan limit:
$5,500 x .75 = $4,125.

Proration Example for Remaining Period with Separated Terms

Fall	Winter	Spring
enrolled	not enrolled	enrolled

O'Donnell Institute has an academic year that consists of three quarters: fall, winter, and spring. Rosie will be enrolling in the fall and spring quarters, but not the winter quarter, and will graduate at the end of the spring quarter.

Because the fall quarter is in the same academic year as Rosie's final quarter, it is part of the final period of study, even though there is a term between the final quarter and the fall quarter in which she will not enroll. Because the fall quarter is part of the final period of study, the loan Rosie receives in the fall must be prorated, just as her spring loan must be prorated.

Aggregate Loan Limits

34 CFR 682.204(b), (e)—FFELP
34 CFR 685.203(d), (e) —DL
Note that the Higher Education Amendments of 1998 provide that interest capitalized on unsubsidized Stafford Loans shall not be counted against the borrower's aggregate loan limits.

NEW ➧ Change in student status for aggregate loan limit

In some cases, a student may qualify for higher loan limits, but then lose the eligibility for the higher limits. This could happen because the parents received a PLUS loan after having been denied in previous years, because the student reverted to dependent status, or because a student with a graduate degree entered an undergraduate degree.

In these cases, you only count the loan amounts that the student would have gotten as a dependent student toward the aggregate loan limit. For instance, if the parents were denied PLUS in the student's first 3 years at your school, but were able to get PLUS in the last year, the student would be eligible for the following Stafford amounts:

1st year (independent)= $6,625
2nd year (independent) = $7,500
3rd year (independent) = $10,500
4th year (dependent) = $5,500

Only $11,625 of these loans are counted against the $23,000 aggregate loan limit for a dependent undergraduate student, so the student may receive the entire 4th-year maximum loan amount, even though it brings the overall loan total to $30,125.

AGGREGATE LOAN LIMITS

The maximum outstanding **total subsidized and unsubsidized** Stafford Loan debt is:

- $23,000 for a dependent undergraduate student,
- $46,000 for an independent undergraduate student (or a dependent undergraduate student whose parents do not qualify for PLUS loans). No more than $23,000 of this aggregate amount may be in the form of subsidized loans.
- $138,500 for a graduate or professional student (including loans for undergraduate study). No more than $65,500 of this aggregate amount may be in the form of subsidized loans.

These maximums include any amounts borrowed under the Direct Loan and FFEL programs (including Consolidation Loans), as well as under the discontinued Federal Supplemental Loans for Students program (SLS).

If a student at your school has FSA loans that were received at other schools, you may need to check the Web site for the National Student Loan Data System (NSLDS) to make sure the student still has remaining eligibility under the loan limits. (See the discussion on page 8-31*ff*.)

If a student who previously received undergraduate and graduate degrees returns to school to complete a second undergraduate program, only the loans that the student received for the first undergraduate program are included in determining the student's remaining loan eligibility for the second undergraduate program. If the total amount received for the first undergraduate program does not exceed the undergraduate aggregate loan limits, the student may receive additional funds for the second program, up to the undergraduate aggregate limits.

Although loans received for graduate study are not counted toward a student's undergraduate aggregate loan limit, the combined loan amounts received for undergraduate and graduate programs may not exceed the total allowable aggregate loan limits.

A borrower who has reached his or her aggregate borrowing limit may not receive additional loans. Once the loans are repaid, in full or in part, the borrower may apply for additional Stafford Loans.

Annual Limits for Stafford Loans

	Subsidized	Total (subsidized & unsubsidized)
Dependent Undergraduates		
First Year	$ 2,625	$ 2,625
Second Year	$ 3,500	$ 3,500
Third Year and Beyond	$ 5,500	$ 5,500
Independent Undergraduates, &tc.		
First Year	$ 2,625	$ 6,625
Second Year	$ 3,500	$ 7,500
Third Year and Beyond	$ 5,500	$ 10,500
Graduate & Professional Students		
All Years of Study	$ 8,500	$ 18,500

Note: All undergraduate annual loan amounts are subject to proration.

Aggregate Limits for Stafford Loans

	Subsidized	Total (subsidized & unsubsidized)
Dependent Undergraduates	$ 23,000	SAME
Independent Undergraduates, &tc.	$ 23,000	$ 46,000
Graduate & Professional Students	$ 65,500	$ 138,500

Example: Combined Loan Limits

An independent student receives the following loan amounts for a first undergraduate program and a graduate program:

	First undergraduate program:	Graduate program:	Total:
subsidized	**$20,500**	**$45,000**	**$65,500**
unsubsidized	**$10,000**	**$40,000**	**$50,000**

The student has now enrolled in a second undergraduate program. Only the loans received for the first undergraduate program are counted toward the student's *undergraduate* aggregate loan limit. Because the total amount received for the first undergraduate program ($30,500) does not exceed the aggregate loan limit for an independent undergraduate ($46,000, maximum $23,000 subsidized), the student has remaining loan eligibility of up to $15,500 for the second undergraduate program.

However, the loans received for the graduate program must be considered in determining whether the student has exceeded the *total* aggregate loan limits. In this case, the total subsidized amount already received ($65,500) is the maximum subsidized amount that a student may receive for undergraduate and graduate study combined. Therefore, the student may receive only unsubsidized loans for the second undergraduate program.

Note: Certain health professions students may qualify for higher annual & aggregate limits—see discussion at the end of this chapter.

Financial Aid History Requirement & NSLDS

To ensure that a student doesn't exceed the annual and aggregate Stafford Loan limits, the student's FAFSA data is matched with the National Student Loan Data System and the student's loan history is included in the ISIR. If a student transfers to your school, you must inform NSLDS so that it can begin the Transfer Student Monitoring process. More detailed information on how this requirement applies to all of the FSA programs can be found in Volume 1, Chapter 3 of the FSA Handbook.

NSLDS on the Web

You can review the complete student loan history for your students and generate reports on the NSLDS Web site for aid professionals:

https://www.nsldsfap.ed.gov/

NSLDS guides & help center

Guides for Enrollment Reporting, Transfer Monitoring and other user documentation are currently posted on IFAP under "Current FSA Publications."

Also see NSLDS Newsletter #6 on IFAP for more specific information on how the OPB and Agg OPB are calculated in NSLDS.

Technical assistance for NSLDS is available by calling :

1-800-999-8219

Perkins and SLS Loans

Perkins loans may be included in the subsidized portion of a Consolidation Loan, but Perkins loans are not considered when determining Stafford loan limits. However, Supplemental Loans for Students/SLS (an earlier name for unsubsidized loans for students) are included when determining Stafford loan limits.

NSLDS status codes that indicate consolidation

PC-Paid in Full Through Consolidation Loan

PN-Non-defaulted; Paid in Full Through Consolidation Loan

DN-Defaulted, Paid in Full Through Consolidation Loan

Sometimes loans paid through consolidation are reported (improperly) as PF, or "Paid-in-Full."

You can find a list of status codes and their definitions by clicking on "?" located in the upper left-hand corner of the NSLDS screen.

Use the "Agg OPB" in NSLDS to determine student's remaining aggregate Stafford eligibility

In most cases, you can rely on the NSLDS loan history data (provided on the ISIR, as well as the NSLDS Web site) and the Transfer Monitoring process to tell you if a student is about to exceed the aggregate Stafford loan limits. (See Volume 1, Chapter 3.) However, should you wish to review your student's loan history on NSLDS, keep in mind that the loan amounts for any Stafford or SLS loans that were once in repayment status may include accrued interest, collection cost, fees, and/or capitalized interest. None of these charges should be included when you're checking to see how much the student has borrowed against the aggregate limits for subsidized Stafford loans and total Stafford borrowing.

To avoid counting interest and other charges, use the **aggregate outstanding principal balance (Agg OPB)** shown in NSLDS for each of the student's outstanding Stafford loans. For instance, if the student has been making payments on a $2,625 loan and the aggregate outstanding principal balance is now $2,100, count the $2,100 towards the student's aggregate loan limit.

Identifying the "underlying" Stafford balances in a Consolidation Loan

The **Agg OPB** shown in NSLDS for a Consolidation Loan may include payoff amounts on the underlying loans that should not be counted toward the aggregate loan limits. If you're planning to award a new Stafford loan to a student who is close to the aggregate loan limit and has an FFEL Consolidation Loan, you may need to find out how much of the Consolidation Loan is associated with previous subsidized Stafford Loans. You should use NSLDS (or loan records provided by the borrower) to identify the loans that the student paid off through consolidation, and whether they were subsidized or unsubsidized.

There are several status codes that indicate that the loans were paid in full through consolidation, particularly PC and PN, and sometimes "PF," though the PF category is not meant to apply to loans that are consolidated. Status dates for loans included in the consolidation should be close to the date the Consolidation Loan was made. (See the example at the end of this chapter.) Once you've identified the underlying loans, add the Disbursed Amounts for the loans to determine the aggregate subsidized Stafford and unsubsidized Stafford amounts within the Consolidation Loan.

In some instances, because of timing or coding problems by the entities reporting to NSLDS, not all of the loans that made up a Consolidation Loan will be included in the NSLDS. *Schools are only responsible for data that is available in the NSLDS.* However, if you have doubts, it would be prudent to review the student's Consolidation Loan paperwork to determine the portion of the consolidated loan that must be considered subsidized or unsubsidized. *(Dear Colleague 96-13, Questions 54 and 55.)*

EFFECT OF OVERBORROWING

If you determine that a student has borrowed more than the annual or aggregate Stafford loan limits, you cannot award *any* FSA funds until the overborrowing is resolved. The student can regain eligibility for aid from other FSA programs (such as Pell Grants) by making satisfactory arrangements with the Stafford lender (or the DL servicer) to repay the amount that exceeded the Stafford annual or aggregate loan limits.

Note that you cannot award further Stafford loan funds to the student until he or she has repaid enough of the previous loans to once again be eligible to borrow under the subsidized and total loan limits.

Example: Resolving a case of "overborrowing"

Beth, an undergraduate student, is applying for a Stafford loan for her fifth and final year of baccalaureate study at your college. At first, she appears to be within the aggregate limit for undergraduate subsidized Stafford loans.

However, you have recently become aware that Beth previously borrowed Stafford loans while attending a community college several years prior to coming to your college.

STAFFORD LOANS

Subsidized BANKONE 1991	$2,625
Subsidized BANKONE 1992	$3,500
Subsidized BANKTWO 1998	$2,625
Subsidized BANKTWO 1999	$3,500
Subsidized BANKTWO 2000	$5,500
Subsidized BANKTHREE 2001	$5,500
TOTAL SUBSIDIZED	$23,250

In fact, your review of her NSLDS records indicates that Beth has borrowed $250 in subsidized Stafford loans in excess of the aggregate undergraduate limit. Because the loan made by BANKTHREE was the one that exceeded the loan limit, Beth needs to make arrangements with BANKTHREE to repay the amount for which she was not eligible.

When BANKTHREE has confirmed that Beth has made satisfactory arrangements to repay the excess loan amount, you may make other FSA awards to Beth.

You cannot make a Stafford loan to Beth until she has repaid the $250 that exceeds the aggregate subsidized Stafford loan limit *and* further repaid enough of her outstanding balance to be eligible for the Stafford amount that you intend to award to her. (For instance, you could not award her a new $5,500 Stafford Loan until she has reduced her outstanding balance to $17,500.)

Example: Consolidation Loan & Stafford Loan Limits

An independent undergraduate student transfers to your school to complete her fourth year of baccalaureate study. She applies for a Stafford Loan and has financial need for the maximum annual loan amount ($5,500 in subsidized Stafford and $5,000 in unsubsidized Stafford). Her NSLDS record indicates that she has an Agg OPB of $24,625 on a Consolidation Loan made by a FFEL lender. Because the undergraduate aggregate subsidized limit is $23,000, you cannot disburse any subsidized loan funds unless you can determine that the total amount of subsidized Stafford loans represented in the consolidation amount is less than $23,000.

The student's loan record shows that her Consolidation Loan was made on August 30, 2000. She previously had three subsidized loans that were paid through consolidation (PC) earlier in July and August. The Disbursed Amounts for her loans are: $2,625 for her first-year loan, $3,500 in her second year, and $5,500 in her third year. The NSLDS record also shows two unsubsidized loans, paid-in-full in July and August, which she received in her second and third years, when she qualified as an independent student.

STAFFORD LOANS (CONSOLIDATED)		STAFFORD LIMIT	REMAINING ELIGIBILITY
Subsidized	$2,625		
Subsidized	$3,500		
Subsidized	$5,500		
TOTAL SUBSIDIZED	$11,625	$23,000	$11,375
Unsubsidized	$4,000		
Unsubsidized	$5,000		
TOTAL SUB + UNSUB	$20,625	$46,000	$25,375

Adding the loans up, we can see that the student has received a total of $11,625 in subsidized Stafford and an overall total of $20,625 in Stafford funds.* Therefore, you may pay the student her full loan amounts ($5,500 subsidized and $5,000 unsubsidized) without exceeding the aggregate Stafford loan limits for an independent undergraduate.

*There are several possible reasons why the $25,000 Consolidation Loan is greater than the total Stafford borrowed ($20,625)— the Consolidation amount may include Perkins or health loans that have been consolidated, and it may include capitalized interest or other charges.

How it looks on NSLDS ...

You can locate the student's information by going to the NSLDS main menu, entering the student's first name, SSN, and date of birth, and clicking on "Loan History." Scroll down to the "Loan Summary."

- In this example, NSLDS shows that an "FFEL Consolidated" loan was made on August 30, 2000 (the word "default" does not mean that the loan is in default).
- Looking at the loan record, we can see five Stafford Loans that were paid through consolidation (PC or PN, though sometimes a loan that has been consolidated will be erroneously coded PF) in the previous month, indicating that they were part of the Consolidation loan made on 08/30/2000.
- Because the underlying loans have all been purchased through consolidation the Outstanding Principal Balance (OPB) and Aggregate OPB on each loan is $0.
- To determine the total that the student has borrowed, add up the Disbursed Amounts shown for the underlying loans. The sum for all five loans is $20,625, and the sum for the three subsidized loans is $11,625
- Since the OPB and Agg OPB on the Consolidation Loan are greater than the sum of the Stafford Loans, the consolidation loan may contain health loans, which are not reported to NSLDS. The Disbursed Amount of the Consolidation Loan will frequently be greater than the Agg OPB because of capitalized interest and/or fees assessed on the underlying loans.

01 CL - FFEL CONSOLIDATED — Status: RP as of 08/30/2000
DEFAULT SCHOOL FOR CONSOLIDATED LOANS 88888800

Guaranteed Amt:	$25,828	Disbursed Amt:	$25,828	OPB:	$24,625	Agg OPB:	$24,625
Loan Date:	08/30/2000	Sep. Loan Ind:	A	Loan Period:	N/A - N/A		
Last Disbursement Amt:			$25,000	Last Disbursement Date:	08/30/2000	Acad Lv:	

Note: lender and guarantor lines omitted for space reasons.

02 SF - FFEL STAFFORD SUB — Status: PC as of 07/25/2000
RUTHER GLEN SCH OF ART & DESIGN

Guaranteed Amt:	$5,500	Disbursed Amt:	$5,500	OPB:	$0	Agg OPB:	$0
Loan Date:	09/17/1999	Sep. Loan Ind:	A	Loan Period:	N/A - N/A		
Last Disbursement Amt:			$2,750	Last Disbursement Date:	01/26/2000	Acad Lv:	

03 SU - FFEL STAFFORD UNSUB — Status: PC as of 07/25/2000
RUTHER GLEN SCH OF ART & DESIGN

Guaranteed Amt:	$5,000	Disbursed Amt:	$5,000	OPB:	$0	Agg OPB:	$0
Loan Date:	09/17/1999	Sep. Loan Ind:	A	Loan Period:	N/A - N/A		
Last Disbursement Amt:			$2,500	Last Disbursement Date:	01/26/2000	Acad Lv:	

04 SF - FFEL STAFFORD SUB — Status: PC as of 08/20/2000
RUTHER GLEN SCH OF ART & DESIGN

Guaranteed Amt:	$3,500	Disbursed Amt:	$3,500	OPB:	$0	Agg OPB:	$0
Loan Date:	09/05/1998	Sep. Loan Ind:	A	Loan Period:	N/A - N/A		
Last Disbursement Amt:			$1,750	Last Disbursement Date:	01/12/1999	Acad Lv:	

05 SU - FFEL STAFFORD UNSUB — Status: PC as of 08/20/2000
RUTHER GLEN SCH OF ART & DESIGN

Guaranteed Amt:	$4,000	Disbursed Amt:	$4,000	OPB:	$0	Agg OPB:	$0
Loan Date:	09/12/1998	Sep. Loan Ind:	A	Loan Period:	N/A - N/A		
Last Disbursement Amt:			$2,000	Last Disbursement Date:	01/12/1999	Acad Lv:	

06 SF - FFEL STAFFORD SUB — Status: PC as of 08/30/2000
RUTHER GLEN SCH OF ART & DESIGN

Guaranteed Amt:	$2,625	Disbursed Amt:	$2,625	OPB:	$0	Agg OPB:	$0
Loan Date:	09/06/1997	Sep. Loan Ind:	A	Loan Period:	N/A - N/A		
Last Disbursement Amt:			$1,312	Last Disbursement Date:	01/12/1998	Acad Lv:	

Increased Eligibility for Health Professions Students

The Health Education Assistance Loan (HEAL) Program, a loan program for health professions students administered by the Department of Health and Human Services, was gradually phased out beginning in 1995. The phaseout has now been completed, and no further HEAL Program loans are being made. To replace loan funds that otherwise would have been available under the HEAL Program, certain health professions students may borrow increased unsubsidized Stafford Loan amounts.

With the complete phaseout of HEAL, the Department has removed the earlier restrictions that limited participation to schools that had disbursed HEAL loans in fiscal year 1995 and to students who, as of October 1, 1995, were not HEAL borrowers.

Increased unsubsidized amounts

For any loan period beginning on or after May 1, 1999, schools may award the increased unsubsidized amounts to students who are enrolled full-time in a health professions discipline that (1) was eligible under the HEAL Program and (2) is accredited by an approved accrediting agency. (See "Dear Partner" Letter GEN-99-21.) The disciplines that were eligible under the HEAL Program and the approved accrediting agencies for these disciplines are shown in the loan limit chart on the next page for the increased unsubsidized amounts. Note that the HEAL Program required a need analysis test, while need analysis (represented by the EFC) is not required for unsubsidized Stafford loans.

Increased annual loan limits

Because the increased annual unsubsidized Stafford Loan limits are intended to replace funds that would have been available previously under the HEAL Program, the annual loan limits for the increased unsubsidized amounts are the same as the HEAL Program annual loan limits. The chart on the next page shows the annual loan limits for the increased unsubsidized amounts, which vary by discipline and academic year (AY) length, as well as the approved accrediting agency for each discipline.

Increased aggregate loan limits

Graduate and Professional. The combined subsidized/unsubsidized aggregate loan limit for graduate and professional health professions students who are eligible to receive the increased unsubsidized amounts is $189,125 (not more than $65,500 of this amount may be in subsidized loans).

This increased aggregate loan limit would permit a student to receive the current maximum Stafford annual loan limits for four years of undergraduate study ($6,625 + $7,500 + $10,500 + $10,500) and four years of graduate/professional study ($18,500 x 4), plus the maximum increased unsubsidized loan limit for a 9-month academic year for four years of graduate/professional study ($20,000 x 4).

Undergraduate. The combined subsidized/unsubsidized aggregate loan limit for undergraduate health profession students (Bachelor of Science in Pharmacology) who are eligible to receive the increased unsubsidized amounts is $70,625 (not more than $23,000 of this amount may be in subsidized loans).

This increased aggregate loan limit would permit a student to receive the current maximum Stafford annual loan limits for five years of undergraduate study ($6,625 + $7,500 + $10,500 + $10,500 + $10,500), plus the maximum increased unsubsidized loan limit for a 9-month academic year for the fourth and fifth years of undergraduate study ($12,500 x 2).

Effect of transfer to non-health profession program of study

NEW ➧ If a student receives the additional Stafford loan amounts on the basis of study in a health profession program, but then leaves that program and enters a program in a different field, the student is no longer eligible for the increased Stafford loan limits. However, the additional loan amounts received on the basis of health professions study are not counted toward the aggregate Stafford loan limit for that student.

Programs Eligible for:

Additional $20,000 in Unsubsidized Loans for a 9-month Academic Year
Additional $26,667 in Unsubsidized Loans for a 12-month Academic Year

Doctor of Allopathic Medicine	Accreditation: Liaison Committee on Medical Education
Doctor of Osteopathic Medicine	Accreditation: American Osteopathic Association, Bureau of Professional Education
Doctor of Dentistry	Accreditation: American Dental Association, Commission on Dental Accreditation
Doctor of Veterinary Medicine	Accreditation: American Veterinary Medical Association, Council on Education
Doctor of Optometry	Accreditation: American Optometric Association, Council on Optometric Education
Doctor of Podiatric Medicine	Accreditation: American Podiatric Medical Association, Council on Podiatric Medical Education

Additional $12,500 in Unsubsidized Loans for a 9-month Academic Year
Additional $16,667 in Unsubsidized Loans for a 12-month Academic Year

Master of Science in Pharmacology (also 4th & 5th yr. Bachelor's & some Doctorate students)*	Accreditation: American Council on Pharmaceutical Education
Graduate in Public Health	Accreditation: Council on Education for Public Health
Doctor of Chiropractic	Accreditation: Council on Chiropractic Education, Commission on Accreditation
Doctoral Degree in Clinical Psychology	Accreditation: American Psychological Association, Committee on Accreditation
Masters or Doctoral Degree in Health Administration	Accreditation: Accrediting Commission on Education for Health Services Administration

EXAMPLE OF ANNUAL LOAN LIMIT: The increased unsubsidized amounts that an eligible health professions student may receive are in addition to the regular Stafford annual loan limits. For example, a student enrolled in a 9-month Doctor of Dentistry program is eligible for the regular Stafford subsidized/unsubsidized annual loan maximum for a graduate/professional student ($18,500, not more than $8,500 of which may be subsidized), plus the maximum increased unsubsidized amount of $20,000, for a total Stafford loan maximum of $38,500.

* Consistent with HEAL's rules, students enrolled in a Doctor of Pharmacology program may receive the increased unsubsidized amounts only if they are not required to have a Bachelor or Master of Science in Pharmacology as a prerequisite for the Doctorate degree. A Pharmacology doctorate student who meets this condition is eligible for the same annual loan limits as students enrolled in a Bachelor or Masters of Pharmacology program.

Only one undergraduate program (Bachelor of Science in Pharmacology) was eligible under the HEAL Program. In accordance with HEAL Program rules, a student enrolled in a Bachelor of Science in Pharmacology program may receive the increased unsubsidized amounts only for the fourth and fifth years of the program. In addition (consistent with general FSA requirements), a dependent undergraduate may receive the increased unsubsidized amounts only if the student's parent is unable to borrow a PLUS loan.

Starting the Loan Process: the MPN & the School's Role

CHAPTER 4

For Stafford Loans, the student must complete the FAFSA and a Master Promissory Note (MPN). If your school accepts electronic promissory notes, the student can complete the MPN on the Web. The school (or its servicer) certifies (in FFEL) or originates (in DL) the loan, based on the borrower's loan eligibility and specifies the anticipated disbursement dates. Note that a school is required to provide entrance counseling (described in Chapter 5) to the student if this is the student's first Stafford loan. The process of paying the loan funds to the borrower will be described in Chapter 6.

In this chapter, we'll cover the process of making a loan, describing the actions and information required of the student and the school. The order of the elements that we list below may vary from school to school or between the two programs, but each of the elements is required to make a loan.

STUDENT APPLIES FOR AID & COMPLETES MPN

To receive a Stafford Loan, a student must complete a Free Application for Federal Student Aid (FAFSA) and a Master Promissory Note (MPN). Depending on the lending program, a student may obtain an MPN from a school, a lender, a guaranty agency, or the Direct Loan Program.

In the traditional paper process, the MPN might be completed at the school by the student and submitted to the lender. In other cases, the school certifies the loan based on the student's acceptance of the aid package, and the lender or the school's servicer sends the MPN to the student for signature. Regardless of the method used, the **Borrowers' Rights and Responsibilities** statement must be provided to the borrower with the MPN.

Schools now also have the option of having students complete and sign an electronic promissory note. In most cases, the promissory note will be completed through a Web site, and the organization operating the site will be responsible for authenticating the student's electronic signature. In the Direct Loan program, you can specify to the Loan Origination Center whether you want the Center to accept electronic promissory notes for your school, and whether you want the Center to only accept promissory notes for students who have an origination record from your school. Students can log onto the Web and complete the MPN for Direct Stafford loans at **http://dlenote.ed.gov**

New MPNs for 2003

NEW ➧ The latest version of the Stafford MPN for FFEL (upper right-hand corner says "Exp. date 9-30-2005") must be provided to FFEL borrowers as of January 1, 2003. A PDF version is posted as an attachment to Dear Colleague Letter GEN 02-07:
http://ifap.ed.gov/dpcletters/ANN0207.html

NEW ➧ The Department announced the release of the first PLUS MPN in February 2003, as we were finalizing this publication. See pages 48-49 for more information.

ifap.ed.gov

IFAP

NEW ➧ Electronic signatures

Your borrowers may complete and sign an MPN over the Web, as discussed in two letters issued in May, 2001:

➔ "Dear Partner" letter GEN-01-06 sets standards for electronic signatures for Stafford and PLUS lenders and guarantors, and for Perkins schools.

➔ Direct Loan Bulletin DLB 01-09 explains how Direct Loan schools can implement electronic signatures for Stafford promissory notes.

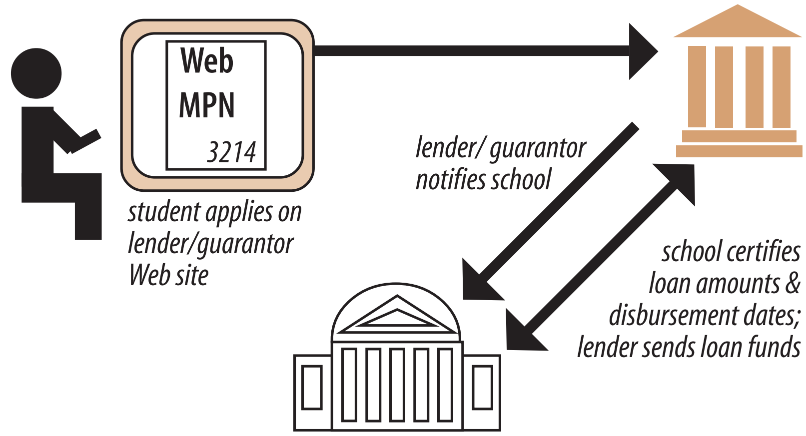
Copies of the new Master Promissory Note and related materials are available on-line :

FFEL Stafford Loan
http://ifap.ed.gov/dpcletters/GEN0207.html
Direct Stafford Loan
http://www.ed.gov/DirectLoan/brr.html

Regulations on the MPN
For general information about the MPN requirement for Stafford Loans see 34 CFR 682.401(d) and definition of "Master Promissory Note" in 34 CFR 685.102; "Dear Colleague" letter GEN-98-25.

Power of Attorney
A third party with "power of attorney" for the borrower may sign the promissory note if the student has authorized the school in writing to credit the loan funds to his or her account at the school. The school must pay any remaining balance to the student for living expenses, using a check or other instrument requiring the student's endorsement.
A power of attorney can only be used to sign for a loan disbursement (EFT or check) in certain cases involving foreign study.
You must provide a copy of the power of attorney document to the lender. A photocopy or a fax of the document is acceptable.
(See 34 CFR 682.207(b))

Introduction of the MPN
The Master Promissory Note (MPN) was authorized in the Higher Education Amendments of 1998 and developed by ED in cooperation with representatives of the student aid community. MPNs were introduced in the 1999-2000 academic year, but FFEL schools could still use the older Common Stafford Application/Promissory Note until July 1, 2000. (The MPN was required for loan periods beginning on or after July 1, 2000, and for any loan certified on or after July 1, 2000.)



If your students borrow Stafford and PLUS loans through the FFEL program, you should make arrangements with participating lenders or another intermediary (such as a guarantor Web site or ELM) for the receipt of electronic documents. Most FFEL schools, lenders, and guarantors use CommonLine as the standard format for document exchange. If the student is completing and signing the promissory note at a Web site, using the Department's PIN or an alternate method of signature authentication provided by the intermediary's Web site, the **Borrowers' Rights and Responsibilities** statement should be incorporated into the electronic process. In most cases, the intermediary operating the Web site will notify you when a student completes the promissory note on-line and designates your school. You may then certify the loan amounts and disbursement dates for the student.

To receive a PLUS loan, a student's parent must complete a loan application and promissory note (the new PLUS MPN may be used, if it is available to you). The student benefiting from a PLUS loan must also complete a portion of the PLUS loan application. A student not applying for aid from other FSA programs need not complete a FAFSA for the PLUS loan alone. A parent borrower must receive the **Borrowers' Rights and Responsibilities** statement with the loan application, but other loan counseling requirements don't apply to parents.

Required borrower information on MPN

The MPN collects identifying information for the borrower, including name, address, date of birth, Social Security Number, driver's license number, and two personal references. If the borrower previously borrowed from a particular lender or the lender uses electronic loan processing, some of this information may be preprinted on the MPN. The borrower must read, sign, *and date* the MPN.

In completing the FFEL MPN, the borrower must also provide the name of a lender. As a convenience, many schools give their students a list of lenders who have commonly made student loans at that school. However, the student has the right to choose his or her preferred lender, even if that lender is not one that the school has previously used. *(Section 432(m)(1)(B) of the HEA)*

Lenders have some discretion in deciding whether or not to make a loan. If you're unable to help the borrower find a lender willing to make an FFEL loan, the borrower should contact the guaranty agency that serves his or her state of residence for assistance in finding a lender of last resort (LLR). See *Chapter Two* for more information about the lender of last resort.

Multi-year use of the MPN

The multi-year MPN enables student borrowers to get additional loans without having to sign a new MPN for each academic year (in Direct Loans) or period of enrollment (in FFEL). ***NEW*** We have recently extended this option to all domestic schools participating in the Stafford loan program. In addition, all domestic schools may use the multi-year feature of the PLUS MPN. (See discussion of PLUS MPN at the end of this chapter.)

NEW ➧ For schools located in the United States that were not previously eligible to use the multi-year feature, this change becomes effective for:

- Any FFEL loan that is certified by the school on or after March 1, 2003, regardless of the period covered by the loan. We have encouraged lenders and guaranty agencies to let you know when, and under what conditions, you will be able to use this option.

- Any Direct Loan for the 2003-2004 year that is processed after the 2.0 Release of the Common Origination and Disbursement System. (See Direct Loan Bulletin DLB-03-02).

Circumstances where a new MPN is required

There are several circumstances that would require a borrower who has a multi-year MPN to complete a new MPN. A new MPN is required if the student's lender (for an FFEL) changes, unless the lender changes as a result of a merger or acquisition. A new MPN is also required in certain transfer situations where:

- The student transfers to a school that is either not eligible to use, or chooses not to use, the multi-year feature of the MPN.

- The student transfers from a school that participates in the FFEL Program to a Direct Loan school, and there's no valid Direct Loan MPN on file at the Loan Origination Center. Similarly, a student would need a new MPN if transferring from a Direct Loan to an FFEL school. (New MPNs would also be required if the school itself changes from using DL to FFEL or vice versa.)

Declining the multi-year feature—schools & lenders

Schools don't have to use the multi-year feature of the MPN. You may decide that you want some or all of the borrowers at your school sign a new MPN each year. If this is the case, you should notify your lenders. (Also note that lenders have the option to require a new MPN for each loan.)

If you're at a Direct Loan school, see the *Direct Loan School Guide*. If you don't want to use the multi-year feature for ANY of your students, please send your request on official school letterhead to:

Direct Loan Operations
Federal Student Aid
Union Center Plaza Rm. 61K4
830 First Street, NE
Washington, DC 20202-5162

See Direct Loan Bulletins
DLB 00-20 and 03-02
http://ifap.ed.gov/IFAPWebApp/currentDLBulletinsPag.jsp

Declining or cancelling the multi-year feature—students

Student loan borrowers may decline the multi-year feature of the MPN. Borrowers may also cancel authorization for subsequent loans to be made under an MPN after the first loan is made by notifying the lender (for FFEL) in writing. Direct Loan borrowers may send their written notification to the Direct Loan Servicing Center (DLSC) or to their school for forwarding to the Loan Origination Center (LOC).
The effective date is the date the school, lender, LOC, or DLSC receives the written cancellation request. If the borrower cancels the multi-year authorization on a loan that has not been completely disbursed, the school may make remaining disbursements on existing loans, unless the borrower tells the school to cancel or adjust the disbursements.
To obtain additional loans the borrower will need to complete a new MPN.

Consumer Information for the Borrower

Because students are often first-time borrowers, they need to be fully advised on the costs and responsibilities of borrowing.

Accordingly, the law requires that the borrower receive the following information:

➔ At the same time as the MPN, a Statement of Borrower's Rights and Responsibilities.

➔ At or prior to the first disbursement, a disclosure statement with specific information about that borrower's loans (usually provided by the lender or the Direct Loan LOC).

➔ For any subsequent loans provided under an existing MPN, a "Plain Language Disclosure (PLD)" developed by the Department.

Some of this information should be reviewed with the borrower as a part of entrance and exit counseling (see Chapter Five).

Borrower confirmation via e:mail

If you are notifying the student of the next loan disbursement by electronic mail or other electronic means, this is considered the equivalent of notification by regular mail—you are not required to confirm receipt of the electronic notice. However, you are encouraged to follow up on any electronic notice for which you receive an "undeliverable" return message.

In some cases, a new MPN will have to be executed because the multi-year feature of the former MPN has expired. At Direct Loan Program schools, loans for multiple academic years may no longer be made under an MPN after the earlier of:

- One year after the date of the borrower's first anticipated disbursement if no disbursement is made during that 12-month period; or

- Ten years from the date of the first anticipated disbursement. If a portion of a loan is made on or before the 10-year limit, remaining disbursements of that loan can be made.

At FFEL Program schools, loans for multiple periods of enrollment may no longer be made under an MPN after the earlier of:

- Twelve months after the date the borrower signed the MPN, if no disbursements were ever made under that MPN; or

- Ten years from the date the student signed the MPN or the lender received the MPN. If a portion of a loan is made on or before the 10-year limit on the signature date, remaining disbursements of that loan can be made.

Borrower confirmation for subsequent loans

A crucial step in multi-year use of the MPN is the confirmation process, which takes the place of the previous requirement that the borrower sign a new note for each academic year (in Direct Loans) or period of enrollment (in FFEL). Schools must develop and document a confirmation process to ensure that the borrower wants subsequent loans. FFEL schools must work with the lender. The confirmation process may be part of the required notices and disclosures that already exist, or it may be separate and supplement them.

To ensure student control over the borrowing process, a student must accept, either actively or passively (*i.e.*, through notification), the loan amount offered.

- **Active confirmation—**school does not disburse the loan until the borrower accepts the proposed loan type and amount or requests changes to the proposed loan package.

- **Passive confirmation—**school does not disburse the loan until the borrower is notified of the proposed loan package. (The notification can come from the school, lender, and/or guarantor.) The borrower only needs to take action if he or she wants to decline the loan or make adjustments to the type or amount of the loan.

For example, your school's award letter may include proposed loan amounts and types. For active confirmation, the student would be asked to confirm the loan amount offered by responding to your school's offer. For passive confirmation, the student would be asked to respond only if he or she wanted to cancel or reduce the loan amount offered.

SCHOOL CERTIFIES/ORIGINATES THE LOAN

The school's primary responsibility in the loan application process is to certify that the student is eligible for the loan amounts requested. In Direct Loans, this information is part of the loan origination record sent electronically to the Loan Origination Center. An FFEL school may submit the certification to the lender electronically or on the new paper Federal Stafford Loan School Certification form.

You must certify that the student is an eligible borrower (see Chapter 2 of this volume for eligibility rules). The school's certification also includes the student's grade level, loan period and the amounts of the disbursements (using the rules described in Chapter 3), as well as the student's enrollment status and anticipated completion/graduation date.

If your school is eligible to use the multi-year feature of the MPN, you must provide this certification each time a loan is made under the MPN.

Certifying eligibility

Your school must confirm the student's dependency status and Social Security Number. For a student who previously attended another college, check the student's financial aid history on NSLDS either when certifying a Stafford Loan or at the time of disbursement. (See Chapter 2 for more information on using NSLDS to obtain a financial aid history.) For a PLUS Loan, don't certify the application until you have obtained the student's complete financial aid history.

Schools are no longer required to provide need analysis information to the lender. However, you must document the student's cost of attendance, Expected Family Contribution, and estimated financial assistance in the student's file. This information must be made available to the lender, the guarantor, or the Department upon request.

You may not certify a loan for more than:

- the amount the borrower requests,
- the student's unmet financial need (in the case of a subsidized loan),
- the student's cost of attendance, or
- the borrower's maximum borrowing limit (as discussed in Chapter 3).

School Responsibilities
Certifying an FFEL:
see 34 CFR 682.603
Originating a Direct Loan:
see 34 CFR 685.301

Common Origination & Disbursement (COD)
Beginning with the 2003-04 award year, all schools using EDExpress to submit their Pell Grant and Direct Loan disbursement records are full COD participants. Full COD participants should use Volume 2 of the COD Technical Reference for Pell and DL processing procedures. (The separate Pell Grant and Direct Loan Technical References have been discontinued.)

Partial participants see the following volumes in the COD Technical Reference:
Volume 3—Pell Grants
Volume 4—Direct Loans
Volume 5—Combination Schools

Regardless of your level of participation, your origination and disbursement records for 02-03 and 03-04 can be viewed on-line at:
http://cod.ed.gov

For technical support, send e:mail to:
codsupport@acs-inc.com
Or, you may call:
1-800-4-P-GRANT (Pell)
1-800-848-0978 (Direct Loans)

Your school's 01-02 records will continue to be hosted at:
http://lo-online.ed.gov/
The 800 number is the same as for COD calls, but the e:mail address for inquiries about 01-02 records and batches is:
loan_origination@mail.eds.com

ESTABLISHING A CONFIRMATION PROCESS FOR YOUR STUDENTS

As long as regulatory requirements and the Department's guidelines are met, schools, lenders, and guarantors are free to establish their own confirmation process—perhaps even a process that combines elements of active and passive confirmation and/or a shared responsibility among the school, lender, and/or guarantor. Schools and the lending community have considerable discretion in setting up these processes, including the timing of confirmation.

For example, confirmation could take place when students apply for aid, when aid is packaged, when loan funds are delivered or disbursed, or at some other appropriate time. The confirmation process could cover the entire loan or, instead, could require that the student confirm each loan disbursement. GEN-98-25 provides examples of each of these confirmation approaches.

The most effective processes will likely vary among institutions, and as implementation of the MPN proceeds, participants are encouraged to use and test various technologies in this process. Some technologies suggested include the Internet, e-mail, card technologies, and voice response.

Generally, schools (in both the Direct Loan and FFEL programs) should use the same confirmation process(es) for all borrowers. However, in some cases a school may want to establish more than one confirmation process in order to accommodate existing administrative procedures, or because the school believes that it can best inform borrowers of their loan obligations if it uses different confirmation processes for different groups of students.

For example, if a school has a policy that requires undergraduates (but not graduate students) to participate in individual counseling sessions before they receive financial aid, it would be reasonable to use the individual counseling sessions to meet the confirmation requirement for undergraduate borrowers, and to establish a different confirmation process for graduate student borrowers.

Regardless of the process(es) used, schools (and lenders in the FFEL Program) must document their confirmation procedures. A school must retain a description of the process(es) in effect for each academic year in which it makes second or subsequent loans under MPNs. The documentation of the process may be kept in paper or electronic format and need not be kept in individual borrower files. The documentation must be kept indefinitely, because it must be submitted to the Department upon request if a borrower challenges the enforceability of a loan.

We recommend that schools include a description of the confirmation process in their student consumer information just as they do for other school policies, such as refunds and academic progress.

Certification Options During Verification

If you have reason to believe that the information included on the FAFSA is inaccurate, you may not certify, originate, or disburse a Stafford Loan for the student until he or she verifies or corrects the information.

If you have no reason to believe that the information included on an application is inaccurate prior to verification, you have the option of certifying or originating a Stafford Loan, but the loan funds may not be disbursed until verification has been completed.

(34 CFR 668.58 Interim disbursements)

If a subsidized Stafford Loan applicant has been selected for verification, you may wait until verification has been completed to certify the Stafford Loan application, or you may certify the application if there is no information which conflicts with that provided by the applicant. If you choose to certify the application without waiting for verification, you may not credit the loan funds to the student's account or pay the student directly until verification has been completed.

On a case-by-case basis, you may refuse to certify the loan application for a borrower. Similarly, you may certify a loan for an amount less than the borrower's maximum eligibility. However, you must ensure that these decisions are made on a case-by-case basis, and don't constitute a pattern or practice that denies access to borrowers because of race, sex, color, income, religion, national origin, age, handicapped status, or selection of a particular lender or guarantor. Also note that your school cannot engage in a practice of certifying Stafford loans only in the amount needed to cover the school charges, or to limit unsubsidized Stafford borrowing by independent students.

When you make a decision not to certify a loan or to reduce the amount of the loan, you must document the reasons and provide the explanation to the student in writing.

A financial aid administrator should be aware of the responsibility incurred in certifying a loan. **The school, not the lender, determines the student's or parent's eligibility for a Stafford or PLUS Loan**. (An eligible foreign school is also responsible for determining eligibility, although such a school generally contracts with a guaranty agency or a consultant for assistance.) Schools that certify loans for ineligible students, or loan amounts that exceed loan limits or the student's need, are subject to administrative actions such as fine, limitation, suspension, and termination, as well as liabilities such as repayment to the government of interest and special allowance on the ineligible loans.

Number of disbursements to the borrower

In most cases, the Stafford and PLUS loan funds must be disbursed in at least two installments with no installment exceeding one-half the loan amount. If the program uses **standard academic terms** (for example, semester, trimester, or quarter) and measures progress in credit hours, disbursements are made as follows:

- *If there is more than one term,* the loan must be disbursed over all terms of the loan period. For example, if a loan period includes all three quarters of an academic year, the loan must be disbursed in three substantially equal payments. If the **remaining portion of the program** is less than an academic year but at least one payment period or longer, the loan must be disbursed in equal amounts at the beginning of the remaining portion and at the portion's calendar midpoint.

- *If there is only one term,* the loan must be disbursed in equal amounts at the beginning of the term and at the term's calendar midpoint.

If the program measures progress in **clock hours or in credit hours without using standard terms,** disbursements are made as follows:

- *If the program is one academic year or shorter,* the loan is disbursed in equal amounts at the beginning of the program and at the program's calendar midpoint.

- *If the program is longer than an academic year,* and the **remaining portion of the program** is less than a full academic year, the loan must be disbursed in equal amounts at the beginning of the remaining portion and at the portion's calendar midpoint.

Authority to refuse to originate/certify a loan

FFEL—34 CFR 682.603
Direct Loans—34 CFR 685.301

Multiple Disbursements Requirement

See 34 CFR 682.207(c-e) and
34 CFR 685.301(b)

Exceptions to the Multiple Disbursement Requirement

There are two significant exceptions to this multiple disbursement requirement:

➔ If any payment period has elapsed before a lender makes a disbursement, a single disbursement may be made for all completed payment periods.

➔ You may pay a student in an eligible study-abroad program in one disbursement, regardless of the length of the loan period, if your school's most recently calculated Stafford loan default rate is less than 5% for the single most recent fiscal year for which data is available.

For more information, please refer to the **Cohort Default Rate Guide** on the IFAP Web site.

http://ifap.ed.gov/drmaterials/FinalCDRG.html

NOTE The statutory provision that allowed schools with default rates <10% to make single disbursements for a term or 4-month period expired on September 30, 2002. (GEN 02-06)

Exception to Delayed Disbursement Requirement

A loan disbursement can be made to a first-time, first-year borrower within the normal time frame (without waiting 30 days) if the borrower is attending an eligible foreign school, or if the borrower is in a study-abroad program and the home school in the U.S. had a Stafford loan default rate less than 5% (in the most recent fiscal year for which data was available).

NEW ➧ The exception to the delayed disbursement requirement for domestic study expired on September 30, 2002. (GEN 02-06.)

For more information, please refer to the **Cohort Default Rate Guide** on the IFAP Web site.

http://ifap.ed.gov/drmaterials/FinalCDRG.html

Multiple disbursements within a payment period

NEW ➧ When scheduling loan payments, you can request multiple disbursements of a loan within a payment period, as long as the disbursements are substantially equal installments.
(see HEA 428G(c))

For clock hour and credit hour nonterm programs, bear in mind that the second disbursement may not be made until the student has **successfully** completed the academic coursework for the portion of the program covered by the prior disbursement.

Timing of disbursements to the borrower

The time frame for paying the borrower is closely related to the start of classes for the academic term, or the completion of the academic work for the prior payment period (for a clock hour or credit hour nonterm program). The earliest that a school may use FSA funds to credit the student's account or to pay a student or parent is 10 days before the first day of classes for that payment period. (See Volume 2, Chapter 5 of the *FSA Handbook,* and 34 CFR 668.164)

If the borrower is a first-time, first-year undergraduate student you can't disburse the loan funds until 30 days after the first day of the student's program. (This limitation does not apply to PLUS loans.)

Subsequent payments of the loan may have to be delayed at a clock hour or nonterm school if the student has not completed the academic work for the prior payment period. The FFEL and DL regulations give a more specific explanation for the loan programs (*see* 34 CFR 682.604(c) and 685.301(b)):

- *For a non-term credit hour program,* you may not make the second disbursement until the calendar midpoint between the first and last days of the loan period, and only if the student has completed half of the academic coursework in the loan period.

- *For a clock hour program,* you may not make the second disbursement until the calendar midpoint between the first and last days of the loan period, and only after the student has completed half of the clock hours in the loan period.

- *If the loan period is one payment period,* you must make two payments to the borrower, and may not make the second payment until the calendar midpoint between the first and last days of the loan period.

Submission of Origination Record and drawdown of funds (Direct Loans)

Direct Loans are originated by schools. The origination process includes the steps that a school would take to certify a loan in FFEL—in particular, the determination of the number of disbursements and the amounts to be disbursed. Depending upon the school's level of origination, the remaining parts of the loan process are handled either by the school or by the Loan Origination Center (LOC). The *Direct Loan School Guide* (Chapter 7) contains detailed instructions about the procedures for drawing down funds in

School checklist for loan certification

For all Stafford and PLUS Loan applications, the school must:
• confirm that the student (and parent) meet the definition of eligible borrower,
• determine the student's enrollment status and satisfactory academic progress,
• review the NSLDS information on the ISIR to ensure that the student (or both the student and parent in the case of a PLUS Loan) is not in default on any FSA loan and does not owe a refund on any FSA grant or scholarship and will not exceed the annual or aggregate loan limits applicable to the borrower,
• ensure that the amount of the loan, in combination with other aid, will not exceed the student's financial need or the annual or aggregate loan limit.

For a Stafford Loan, the school must also:
• determine the student's Pell Grant eligibility (for a subsidized Stafford Loan, the need analysis must use an official EFC calculated by the Department to determine the student's financial need), and if eligible, include the grant in the student's aid package,
• for an unsubsidized Stafford Loan, first determine the student's eligibility for a subsidized Stafford Loan,
• prorate Stafford Loans for programs of study that are shorter than an academic year and for programs in which the remaining period of study is less than an academic year in length, and
• ensure that the loan disbursement dates meet the cash management and disbursement requirements for Stafford Loans.

the Direct Loan Program, so that information will not be duplicated here. We'll discuss loan disbursement procedures in Chapter 6.

Lender/guarantor approval (FFEL only)

The lender or guarantor will match the information included by the school on the certification (electronic or paper) to the MPN by comparing the student's identifying information. The lender or guarantor should check the permanent address information on the MPN to see if it has changed. The school must supply the student's cost of attendance, EFC, and estimated financial assistance to the lender or guarantor upon request.

The lender will also check to make sure that the school is eligible to use the multi-year feature of the MPN. If the student transfers to a school that is not eligible to participate in the multi-year process and continues to use the same lender, the lender is responsible for obtaining a new signed MPN for each loan at the new school.

A lender may elect not to make a subsequent loan under an existing MPN or require a new MPN from a borrower even though the borrower remains enrolled at a school authorized to use the multi-year process.

A lender is prohibited from discriminating against an applicant on the basis of race, national origin, religion, sex, marital status, age, or disabled status. However, a lender may decline to make loans to students who do not meet the lender's credit standards or to students at a particular school because of the school's default rate, or to students enrolled in a particular program of study. A lender may decline to make FFELs for less than a specified amount; for example, a lender could refuse to make a loan for less than $500.

Blanket Agreements for Guaranty Approval
A lender must receive guaranty agency approval for an FFEL in order for the lender to disburse the loan and, if applicable, be eligible for payment of federal interest benefits. Under the 1998 Amendments, a guaranty agency may offer eligible lenders participating in the agency's guaranty program a blanket guaranty that permits the lender to make loans without receiving prior approval from the guaranty agency for individual loans.
See Section 428(n) of the Higher Education Act of 1965, as amended

NEW ➧ PLUS MPN announcement

The Department announced the release of the PLUS MPN in GEN-03-03. The discussion of the PLUS MPN in this Handbook is based on that Dear Colleague letter and uses FFEL terms and describes school-lender processes . For a discussion that is specific to Direct Loans, see DLP-03-07.

Once guaranty agency approval is obtained, the lender will send Stafford loan funds to your school in the appropriate amount for each disbursement to the student; or the lender will send the funds directly to the student if he or she is enrolled in a foreign school. For a PLUS, loan funds are sent in at least two disbursements to the school by EFT or by a check made copayable to the school and the parent borrower. We'll discuss loan disbursement procedures in Chapter 6.

NEW ➧ PLUS MPN

In February, 2003, the Department announced the approval of the Master Promissory Note for PLUS loans. Paper copies of the PLUS MPN and the Borrower Disclosure Statement—for those parents who won't be filing electronically—will be provided by the lender. You can begin using the PLUS MPN for loan periods beginning on or after July 1, 2003, though you may also use the older PLUS promissory note during the one-year transition period. You must use the PLUS MPN for any loan you certify on or after July 1, 2004, or for any loan period that begins on or after that date.

At domestic schools, the parent may obtain additional loans for the same dependent student based on the original MPN for up to 10 years after the date the parent first signed it. The borrower must receive a Plain Language Disclosure for each subsequent loan. The lender may provide the Plain Language Disclosure separately, or along with the initial disclosure for each loan.

A separate PLUS MPN is required if the parent borrows for a different dependent, or if the other parent wants to borrow on behalf of the student. A new PLUS MPN would also be required if the lender changes, or if the student transfers from a school that makes its PLUS loans through the FFEL program to a school that participates in the Direct Loan program, or vice versa. As with the Stafford Loan MPN for student borrowers, the parent borrower, the school or the lender still has the option to submit or require a separate PLUS MPN for each loan period.

Foreign schools must get approval from ED to be able to use the multi-year feature of the PLUS MPN. If the foreign school does not have this approval, the parent will have to sign a new PLUS MPN for each new loan.

The Department has developed a paper **Federal PLUS Loan Information and School Certification** (PLUS Certification form). Schools that certify electronically do not need to use this form, but certification records sent electronically must, at a minimum, include the same data items as the paper form.

The PLUS Certification form includes a Borrower (Parent) and Student Information section. If you elect to secure the loan information and initiate the process, you may send the Certification form to the parent for completion of the borrower/student information. Alternatively, if the lender or guarantor secures this information, the borrower/student section would be pre-filled and you would only provide the school certification data.

Because the PLUS amounts the parent may borrow can be certified up to the full financial need, it's especially important that the parent specify the amount that he or she wants to borrow. A PLUS loan may not be made for more than the amount the parent requested.

The loan amount information may change from year to year, so it is not included on the Master Promissory Note. Your school can collect this information before certifying the loan by using the PLUS Certification form, a parent response section on your financial aid award letter, a separate PLUS form, or documented telephone or electronic requests. You may also make arrangements with FFEL lenders for them to collect the information before approving the loan. Whether your school collects the information or the lender, you must establish and document how the parent's loan request will be collected. You (or the lender) also must maintain a record of any requests by the parent (in writing, by phone, or electronically) for an adjustment to the loan amount.

If you are eligible to use the multi-year MPN, the parent's loan request for subsequent years is sufficient documentation on which to base additional loans—there is no separate confirmation process for PLUS loans.

Credit report required

When determining whether the parent is ineligible for a PLUS Loan based on an adverse credit history, the lender must obtain a credit report on the parent from at least one national credit bureau within a timeframe reasonably related to the loan period. If the parent borrower requests additional funds for an existing loan period (resulting in a loan amount adjustment, not a new loan), the lender is not required to obtain a new credit report, but may elect to do so.

Use of an Endorser

If the parent borrower has an adverse credit history and an endorser will be used, a separate Endorser Addendum is required for each PLUS Loan. Therefore, any loan for which an endorser is required, must be made under a new PLUS MPN, with a new Endorser Addendum, because the PLUS MPN becomes a "single-loan" promissory note when an endorser is used. The endorser is liable only for the specific loan or loans he or she agreed to endorse. The Endorser Addendum continues to include the requested loan amount. Any increase in the requested loan amount by the parent borrower must be approved by the Endorser and requires a new MPN and Endorser Addendum.

Review of the Stafford MPN Process

The process for completing the MPN for a Stafford Loan and making the initial loan includes the following elements, though the process may be a bit different for the FFEL and Direct Loan Programs and some school and lender procedures may be in a slightly different order.

For instance, as shown in the beginning of this chapter, a student might initiate the loan process by completing the FAFSA and the MPN. In some cases, the lender would then notify the school of the loan request and the amount requested and the school would certify/originate the loan if the student is eligible.

Student Applies for Aid. The student fills out the FAFSA (or a renewal FAFSA) and an MPN for the initial loan.❋ The Borrower's Rights and Responsibilities Statement must be given to the borrower with the MPN.

School Determines Eligibility and Loan Amount. The school confirms the student's eligibility for federal student aid, determines the loan period and loan amount, and packages the loan(s) requested. (In a traditional setting, the packaging process would be completed and an award letter sent to the student *before* the student completes the MPN.)

Certification/Origination. For FFEL loans, the school certifies the student's loan eligibility. For Direct Loans, the school originates the loan.

- In the FFEL Program, the loan is approved by the lender or guaranty agency.
- In the Direct Loan Program, the school submits an origination record to the LOC and receives an acknowledgment from the LOC.

Disclosure. Either before or at the time of the first disbursement, the borrower must be given a disclosure statement with specific information about the type(s) of loans the borrower is getting, anticipated disbursement amount(s), anticipated disbursement date(s), and instructions on how to cancel the loan(s). (The disclosure is often provided by the lender or the Direct Loan Origination Center.)

Payment to the Borrower. The school (after checking that the borrower is still eligible) disburses the loan funds to the student's account or directly to the borrower, and notifies the borrower of each disbursement. *(See Volume 2, Chapter 5)*

❋ **Making Subsequent Loans.** If the multi-year feature is used, a new MPN is not required for subsequent loans. However, your school must use an active or passive confirmation process for subsequent loans, and the borrower must receive a Plain Language Disclosure, at or prior to the disbursement of any subsequent loans provided under an existing MPN. (The Plain Language Disclosure is usually sent to the borrower by the lender or the Direct Loan Origination Center.) If the multi-year feature is not in place, the borrower completes a new MPN for each subsequent loan.

Copies of the Master Promissory Note and ancillary documents are available on-line at
FFEL Stafford Loan MPN http://ifap.ed.gov/dpcletters/GEN0207.html
Direct Stafford Loan MPN http://www.ed.gov/DirectLoan/brr.html

Loan Counseling

CHAPTER 5

Loan counseling is particularly important because new students often have little or no experience with repayment and managing debt. Your school must ensure that the student receives comprehensive entrance and exit counseling, even though the counseling may be given by a consultant, servicer, lender, or guarantor (usually on the Web). At a minimum, you must provide entrance counseling to first-time Stafford borrowers before the first disbursement of a loan can be made, and exit counseling before leaving school. If the counseling is given electronically, you'll need to make sure that the student receives written counseling materials for any required information that is not provided in the electronic counseling presentation. Your school is also responsible for making knowledgeable staff available to answer student questions.

This chapter covers the elements of entrance and exit counseling that are either required by regulation or recommended. However, there are many ways to deliver this information and to reinforce it through continuing contacts with your student borrowers. You have an opportunity at each disbursement to remind students about the importance of academic progress, planning for future employment, and staying in touch with the holder of the loan.

The Direct Loan Progam and many FFEL guaranty agencies, lenders, and other organizations offer on-line counseling through the Web, videos, pamphlets, and other counseling materials. Your school may choose to rely on Web counseling services, if those services provide all of the information required by regulation. The program regulations have been amended to allow a school to provide counseling through "interactive electronic means."

If your staff are conducting in-person counseling sessions, charts, handouts, audiovisual materials, and question-and-answer sessions can help convey the information in a more dynamic presentation. We also recommend the use of written tests to make sure that the student understands the terms and conditions of Stafford Loans. If the student fails the test, you should make sure that the student receives additional counseling.

Regardless of the counseling methods your school uses, you must be sure to document that the student participated in and completed entrance and exit counseling. In the case of Web-based counseling, the documentation may consist of the student's certification on a copy of the "Borrower's Rights and Responsibilities" that he/she has received entrance counseling. You can usually get confirmation that the student has completed

Loan counseling in regulations
FFEL: 34 CFR 682.604 (f) and (g)
DL: 34 CFR 685.304

Student Loan Guide
This Guide is available on-line as part of the FSA Handbook, and contains consumer information about student loans. The first two chapters of the Student Loan Guide contain most of the information required for entrance and exit counseling requirements. (The chapters also list the additional information that you'll need to provide.)

Direct Loan counseling materials
Direct Loan schools can order counseling materials by calling:

1-800-848-0978

On-line counseling and print materials are also available on-line at the Direct Loan Web Site:

http://lo-online.ed.gov

Entrance counseling

FFEL—34 CFR 682.604(f)
DL—34 CFR 685.304(a)

Counseling materials for overseas or correspondence students

Web-based counseling sites can be particularly useful for borrowers who are participating in a school's year-abroad program or other off-campus program, such as correspondence study. If the borrower has not previously received a loan at that school, the school must document that the student has completed on-line entrance counseling that meets FSA requirements, or provide entrance counseling information by mail before releasing loan proceeds.

Counseling as part of a Default Management Plan

A school with a high default rate may be required to implement a Default Management Plan (see 34 CFR 668.198). The sample plan included in the regulations mentions several steps that relate to loan counseling:

→ Enhance the borrower's understanding of his or her loan repayment responsibilities through counseling and debt management activities.

→ Enhance student loan repayments through counseling the borrower on loan repayment options and facilitating contact between the borrower and the data manager or FFEL Program lender.

→ Keep statistics on the number of enrolled borrowers who received default prevention counseling services each fiscal year.

(Appendix B to Subpart M of 34 CFR 668)

Alternative entrance counseling approaches

The Direct Loan regulations describe how a school may adopt alternative approaches as a part of its quality assurance plan—see 34 CFR 685.304(a)(5)

the on-line counseling session through a printout, electronic message, or other means.

The regulations also require (for any form of counseling) that someone with expertise in the FSA programs be available shortly after the counseling to answer borrowers' questions about those programs.

The chart at the end of this chapter summarizes information to be covered as a part of entrance and exit counseling sessions. The arrows indicate those elements that must be covered in both entrance and exit counseling.

ENTRANCE COUNSELING

A school must conduct "initial" or entrance counseling before releasing the first disbursement of the first Federal Stafford Loan made to a student borrower. The counseling must be conducted in person, by audiovisual presentation, or by interactive electronic means, and a person knowledgeable about FSA programs must be available for to answer questions shortly after the counseling session.

Required elements of entrance counseling

The Direct Loan and FFEL regulations and Program Participation Agreements require that certain information be included in entrance counseling. Some of this information is included in the "Borrower's Rights and Responsibilities" statement that must accompany the MPN, but you should review and elaborate on these points as a part of the counseling presentation.

- **Reinforce the importance of repayment.** The regulations also require that entrance counseling "emphasize ... the seriousness and importance of the repayment obligation." The counseling should stress that the borrower must make payments on his or her loans even if the borrower does not receive a payment booklet or a billing notice. The lender or Direct Loan Servicing Center sends payment coupons or billing statements as a convenience for the borrower. Not receiving them does **not** relieve the borrower of his or her obligation to make payments. (Direct Loan borrowers are encouraged to set up electronic debiting of a bank account to repay their loans—electronic debiting is also available through many FFEL lenders.)

- **Describe the consequences of default.** The regulations require that entrance counseling "describe the likely consequences of default, including adverse credit reports, federal offset, and litigation." We also recommend that you tell the borrower of the charges that might be imposed for delinquency or default, such as the lender's or guarantor's collection expenses (including attorney's fees). Defaulters often find that repayment schedules for loans that have been accelerated are more stringent than the original repayment schedule. A defaulter is no longer eligible for any deferment provisions, even if he or she would otherwise qualify. Finally, a defaulter's federal and state tax refunds may be seized and wages garnished, and the borrower loses eligibility for any further funding from the FSA programs.

- **Explain the use of the Master Promissory Note.** If relevant at your school, explain the use of the multi-year feature of the MPN, and the borrower confirmation process. You should advise the student to carefully read the MPN and the Borrower's Rights and Responsibilities statement before signing the MPN.

- **Stress that repayment is required, regardless of educational outcome or subsequent employability.** Entrance counseling information must explain that the student borrower is obligated to repay the full loan even if he or she doesn't finish the program, can't get a job after graduating, or is dissatisfied with the school's educational program or other services.

- NEW FOR FFELP **Provide sample monthly repayment amounts.** The student must receive sample monthly repayment amounts for different levels of indebtedness, or for the average indebtedness of Stafford borrowers at your school or in the same educational program.

- **Review the availability of state grant aid.** In the Program Participation Agreement (PPA), a school agrees to tell eligible borrowers about the availability of state grant assistance in the state where it is located. For out-of-state students, a school must provide a source of information for state grant assistance in the student's home state. (Note that a list of state agency telephone numbers is included in the back of the *Student Guide,* which you can order from the Department by going to the Schools Portal at fsa4schools.ed.gov). In general, you should always encourage your student borrowers to explore sources of grant assistance that might might reduce their need for loans.

Other suggestions for entrance counseling

In addition to the required elements above, counselors often include some of the following information in their sessions. (Some of these items were included in an Appendix to the General Provisions, published in 1989 as recommendations for schools that were required to adopt default management plans.)

- **Review terms and conditions of the loan.** As a part of entrance counseling, tell the borrower the current interest rate on his/her loan(s), the applicable grace period, and the approximate date the first installment payment will be due.

  Often a student loan is the borrower's first experience in obtaining a loan of any kind, so it helps to clearly explain basic loan terminology to ensure that a borrower understands the process and knows who holds his/her loan. For instance, define terms such as "loan servicer," the use of contractors to service the loan, and the process of selling loans to other lenders or to "secondary markets." (A loan servicer is a corporation that administers and collects loan payments for the loan holder. A secondary market is a lender or a private or public agency that specializes in buying student loans.)

- **Review repayment options.** Explain that the **exact** repayment schedule will not be provided until loan repayment begins. Tell the student that certain fees (the origination fee and, for FFEL, an insurance fee) will be subtracted from the loan amount before the loan is disbursed but that repayment of the **full** loan amount is required. Review the availability of different repayment plans (standard, extended, graduated, income-sensitive/contingent), as well as loan consolidation.

- **Discuss how to manage expenses (budgeting).** It would also be helpful to include general information for the student about budgeting of living expenses and personal financial management. Financial planning includes decisions by the borrower about the amount of student aid that he or she can afford to borrow. Budgeting information can be combined with an assessment of the student's earning potential in his or her chosen career, and with required information about anticipated monthly payments and overall indebtedness.

- **Reinforce the importance of communicating change of status, etc. to the lender.** The counseling should stress the student's obligation to keep the lender (or the Direct Loan Servicing Center) informed about address changes, or changes in enrollment. (Failure to tell the lender about these changes is one of the most common reasons why a loan goes into default.) The borrower should always know the most current name and address of the lender, the loan servicer, and the guarantor of the loan.

  The student is required to inform the lender when he or she graduates, changes schools, drops below half time, or withdraws from school. The borrower also must tell the DL Servicing Center or the lender if his/her address changes (including changes in the permanent address while in school). The student should also be reminded of the importance of notifying the holder of the loan in the event of a name change (including the change of a last name through marriage) or a change in Social Security Number.

- **Review deferments, forbearance, etc.** The borrower should have a general understanding of the deferment, forbearance, and cancellation options, and how to apply for them. The counseling should stress that the borrower needs to contact the lender if he or she is having difficulty in repaying the loan, as the lender may be able to suggest options that would keep the loan out of default.

- **Review Borrower's Rights and Responsibilities.** As noted in Chapter Four on the loan process, the student must receive a statement of Borrower's Rights and Responsibilities. This may be provided by the Direct Loan Origination Center or the FFEL lender, but it's a good idea to review the information on the statement with the borrower to make sure that he or she is familiar with that information.

- **Refund and other policies affecting withdrawals.** The borrower should be aware of the school's academic progress policy and refund policy, and how the return of FSA funds will affect loan repayment.

- **Importance of keeping loan records.** This would be a good time, if your school has the resources, to provide a student with a folder or other aids to encourage him or her to keep all financial aid materials in one place. The student should keep copies of all records relating to the loan, beginning with the Master Promissory Note and notices showing when the student received loan payments or his/her account was credited. The student should keep the loan repayment schedule provided by the lender when repayment begins, as well as records of loan payments—including canceled checks and money order receipts. The student should keep copies of any requests for deferment or forbearance, or any other correspondence with the lender.

- **Reminder about exit counseling.** Because many students leave school before the scheduled end of their academic programs, it's helpful to remind students during entrance counseling that they are obligated to attend exit counseling before they cease to be enrolled **at least half time**.

Borrower's Rights and Responsibilities Statement

These are the contents of the statement that the borrower must receive prior to signing the Master Promissory Note.

- Governing Law
- Use of This Note
- Subsidized and Unsubsidized Loans
- Maximum Program Loan Amounts
- Maximum Individual Loan Amounts
- Use of Loan Money
- Disbursement of Loan Money
- Change of Status
- Effect of Loans on Other Student Aid
- Grace Period
- Repayment
- Interest Rates
- Payment of Interest
- Loan Cancellation
- Sale or Transfer of Loans (FFEL)
- Loan Discharge
- Consequences of Default
- Capitalization of Interest
- Credit Bureau Notification
- Special Repayment Arrangements
- Deferments
- Forbearance
- Repayment Chart (showing repayment amounts under different repayment plans, based on varying amounts of initial debt)

Exit counseling requirements cites
DL—34 CFR 685.304(b);
FFEL—34 CFR 682.604(g)

Staying in touch with the Direct Loan Servicer
If they keep their PIN numbers handy, Direct Loan borrowers can manage their loans on-line by going to:

http:/www.dlservicer.ed.gov/

to check account balances, change address, estimate repayments, or print out forms (deferment, forbearance, electronic debit account).

Exit counseling for correspondence and study-abroad students
As an alternative for correspondence programs, or study-abroad programs that are approved by the U.S. school for credit, you must send the borrower written counseling materials within 30 days after the borrower completes the program, with a request that the borrower provide the contact and personal information that would ordinarily have been collected through the counseling process.

EXIT COUNSELING

Your school may provide exit counseling in person, either individually or in groups. As with entrance counseling, exit counseling is offered on the Web by many guarantors, lenders, and by the Direct Loan Program.

Student borrowers should be advised to complete on-line exit counseling or sign up for a counseling session (if offered at your school) shortly before graduating or ceasing at least half-time enrollment. As with entrance counseling, knowledgeable financial aid staff at the school must be reasonably available to answer questions from student borrowers. One of a borrower's obligations is to participate in an exit counseling session.

Responsibilities if a student misses exit counseling

If the student borrower drops out without notifying your school, you must confirm that the student has completed on-line counseling, or mail exit counseling material to the borrower at his or her last known address. The material must be mailed within 30 days after your school learns that the borrower has withdrawn or failed to participate in an exit counseling session.

If you're mailing these exit materials, you're not required to use certified mail with a return receipt requested, but you must document in the student's file that the materials were sent. If the student fails to provide the information, you are not required to take any further action.

Required elements of exit counseling

Some of the material presented at the entrance counseling session will again be presented during exit counseling. The emphasis for exit counseling shifts, however, to more specific information about loan repayment and debt-management strategies. The following information must be provided as a part of exit counseling:

- **Review information from entrance counseling**. Several topics that were covered in entrance counseling must be reviewed during exit counseling: the consequences of default and the importance of the repayment obligation, the use of the Master Promissory Note, and the obligation to repay the loan even if the borrower drops out, doesn't get a job, or is otherwise dissatisfied with the quality of the school's educational programs and services.

- **Provide an average anticipated monthly repayment amount.** The borrower must be given an estimate of the average anticipated monthly payments based on his/her indebtedness (or on the average indebtedness of Stafford borrowers at your school or in that program). We recommend giving the borrower a sample *loan repayment schedule* based on his/her total indebtedness. A loan repayment schedule usually will provide more information than just the expected monthly payment—for instance, it would show the varying monthly amounts expected in a graduated repayment plan.

Note that the lending organization is not required to send the repayment schedule to the borrower until the grace period. Direct Loan borrowers who use the On-line Exit Counseling Session (www.dlservicer.ed.gov) can view repayment schedules based on their account balances (using their PIN numbers), select a repayment plan, and update demographic information.

In Direct Loans, a school may request that the Servicing Center send the repayment schedule information to the financial aid office 30, 60, or 90 days before the student completes the program. If the school chooses this option, it accepts the obligation to deliver this repayment information to the borrower either in the exit counseling session or by mailing it to the borrower.

- **Review repayment options.** The counseling must review the available options for loan repayment, such as the standard, extended, graduated, and income-contingent/income-sensitive plans. The option of consolidating loans must also be discussed.

  Both the Direct Loan Program and the FFEL Program offer Consolidation Loans. Direct Consolidation Loans are available from the U.S. Department of Education. FFEL Consolidation Loans are available from participating lenders such as banks, credit unions, and savings and loan associations.

- **Discuss debt management strategies.** A counselor should stress the importance of developing a realistic budget based on the student's minimum salary requirements. It's helpful to have the student compare these costs with the estimated monthly loan payments, and to emphasize that the loan payment is a fixed cost, like rent or utilities.

- **Review forbearance, deferment, and cancellation options.** The counseling should reinforce the availability of forbearance, deferment ,and cancellation for certain situations, and emphasize that in most cases the borrower must start the process by applying to the lender or the Direct Loan Servicing Center. It's also very important that the borrower remember that he or she must continue to make payments on the loan while waiting for approval of his or her request.

- **Tell the student about the availability of loan information on NSLDS and the availability of the FSA Ombudsman's office.** The borrower's loan history can be viewed on-line at the Web site for the National Student Loand Data System (PIN required for access). In addition, students without Internet access can identify their loan holder by calling 1-800-4-FED-AID.

Checking completion of on-line exit counseling

Direct Loan schools can use the program's Web site to confirm which of their students have completed on-line exit counseling:

http://www.dlservicer.ed.gov/schools/

Similar on-line counseling services are provided by guarantors in the FFEL program.

Pros and Cons of Consolidation

A Consolidation Loan can lower the borrower's total monthly repayment, and simplify loan repayment. Because the repayment period for the Consolidation Loan is longer than for most Stafford Loans, the monthly payments should be lower. (On the other hand, the total interest paid over the life of the loan is usually greater.) If the borrower has more than one loan, a Consolidation Loan simplifies repayment because there's only one lender and one monthly payment. Consolidation may also be an option for a borrower in default, if certain conditions are met.

The borrower should also be aware that some deferments and other benefits available with his/her current loans (especially Perkins) may be lost through consolidation.

FSA Ombudsman Office

Toll-free: 1-877-557-2575
http://fsahelp.ed.gov

U.S. Department of Education
FSA Ombudsman
830 First Street, NE
Fourth Floor
Washington, DC 20202

fax: 202-275-0549

However, the borrower should be aware that the information on the NSLDS site is updated by lenders and guarantors and may not be as current as the latest information from those loan holders.

The Ombudsman's office is a resource for borrowers to use when other approaches to resolving student loan problems have failed. Borrowers should first attempt to resolve complaints by contacting the school, company, agency, or office directly involved. If the borrower has made a reasonable effort to resolve the problem through normal processes and has not been successful, he or she should contact the FSA Ombudsman.

- **Collecting and updating personal and contact information.** During exit counseling, the financial aid administrator must obtain the borrower's expected permanent address after leaving school, the address of the borrower's next of kin, and the name and address of the borrower's expected employer (if known). A school must correct its records to reflect any changes in a borrower's name, address, Social Security Number, or references, and it must obtain the borrower's current driver's license number and state of issuance. Within 60 days after the exit interview, the financial aid office must provide this information to the guarantor (indicated in the borrower's student aid records) or the Direct Loan Servicing Center.

Further recommendations for exit counseling

It's a good idea to provide the student with the current name and address of the borrower's lender(s), based on the latest information that your school has. The counseling presentation might also explain to the student how to complete deferment forms and prepare correspondence to the lender.

Entrance Counseling

Required Elements:

Reinforce importance of repayment

Describe consequences of default

Explain use of the Master Promissory Note

Stress that repayment is required regardless of educational outcome and subsequent employability

NEW Provide sample monthly repayment amounts for different amounts of debt, or for average debt of Stafford borrowers at school or in same program

Review the availability of state grant aid

Other Suggestions for Counseling:

Review terms and conditions of the loan

Review repayment options

Discuss how to manage expenses (budgeting) while in school

Reinforce importance of communicating change of status, etc., with the lender

Review deferment, forbearance, cancellation options and procedures

Review Borrower's Rights and Responsibilities

Review refund and other policies affecting withdrawals

Reinforce importance of keeping loan records

Remind student of exit counseling requirement

Exit Counseling

Required Elements:

Review these four elements from entrance counseling

Provide an average anticipated monthly repayment amount, based on borrower's indebtedness or for average debt of Stafford borrowers at school or in same program

Review repayment options (standard repayment, extended, graduated, income-sensitive/contingent) and consolidation

Discuss debt management strategies that would facilitate repayment

Review forbearance, deferment, and cancellation options and procedures

Tell the student about the availability of loan information through the NSLDS Web site, and the availability of the FSA Student Loan Ombudsman's Office

Collect driver's license number and state of issuance, expected permanent address, address of next of kin, and name and address of employer (if known), and update any changes to student's personal information (name, social security number, etc.).

Other suggestions for counseling:

Provide student with contact information for lender(s) and reinforce importance of communicating change of status, etc., with the lender

Payment to the Borrower

CHAPTER 6

The Department (in Direct Loans) or a lender (in FFEL) provides loan funds to the school for payment to the student or parent borrower. The school is responsible for ensuring that the student is still enrolled at least half time and otherwise eligible at the time of payment. A school may credit loan proceeds to the student's account, pay the student or parent directly, or combine these methods. In 1996, cash management regulations set specific time frames for transfer of funds to the school and payment to the borrower—be sure to review Volume 2, Chapter 5 of this Handbook for a discussion of those disbursement requirements for all FSA programs.

THE DISBURSEMENT PROCESS

After receiving the loan funds from the lender (or the Department, in the case of Direct Loans), you will disburse the funds by crediting them to the student's school charges and/or paying the student directly.

A disclosure statement must be provided to the borrower either at or prior to the first disbursement. In the FFEL Program, the disclosure statement is provided by the lender or guarantor. In the Direct Loan Program, the school may choose to send disclosure statements or let the Loan Origination Center (LOC) send them. The disclosure will include information that is specific to the borrower's loan: the type of loan, anticipated disbursement amount(s), anticipated disbursement date(s), and instructions on how to cancel the loan(s). For any subsequent loans provided under an existing MPN, borrowers must also receive a "Plain Language Disclosure (PLD)" developed by the Department.

Checking eligibility at the time of disbursement

You've already certified that the student is eligible when you sent the loan information to the lender (see Chapter 4, "Starting the Loan Process"). However, you must also ensure that the student has maintained continuous eligibility before you disburse the loan.

The most common change that would make a student ineligible for a disbursement is if the student has dropped below half time, so it is important that your office have a system to check the student's enrollment status at the time of disbursement.

If the student has dropped below half time temporarily, you may still make a first disbursement (and subsequent disbursements) after the student resumes at least half-time enrollment. However, you must make sure that the student continues to qualify for the entire

NEW ➧ Disbursement exceptions have expired ...

Disbursements to 1st-time undergraduate students cannot be made until 30 days after the start of the program, and all loans must be made in multiple disbursements—the exceptions for schools with default rates ≤ 10% has expired. See Volume 2, Chapter 5.

A Note on Terminology ...

Traditionally, the FFEL regulations have referred to the lender's "disbursement" of funds to the school, and the school's "delivery of the loan proceeds" to the student. More recently, the Cash Management regulations have defined the disbursement of a loan as the payment to the borrower.

In this chapter, we will use "disbursement" in the sense of the Cash Management regulations, that is, payment to the borrower.

Common Origination and Disbursement (COD) System for Pell Grants & Direct Loans

For 03-04 and 02-03 Direct Loan data & support:
http://cod.sfa.ed.gov
codsupport@afsa.com
1-800-848-0978

Paying Loan Funds to the Borrower
34 CFR 668.164, General Provisions
34 CFR 682.604, FFEL
34 CFR 685.303, Direct Loans

Late disbursements
NEW ➧ The Cash Management regulations were revised on November 1, 2002 to permit a school to make a late disbursement to a student for unpaid educational expenses within 120 days after the student withdraws or drops to less than half time enrollment. See Volume 2, Chapter 5. (34 CFR 668.164)

Payment rules in modular programs
➔ When a student is attending a modular program, but won't attend the first module, the date when classes begin for payment purposes is the starting date of the first module that the student will actually attend.
➔ The earliest the school can pay a student who begins attendance in the second of three 5-week modules that make up the payment period, is 10 days before the first day of the second module. (Or 30 days after the second module begins, if the student is a first-time borrower.)
➔ In the case of a first-time student borrower who enrolls in a 25-day summer mini-session, the student cannot be paid until the student has been enrolled for 30 days, which might fall between mini-terms, or between the mini-term and the next session in which the student is enrolled.

Student starts later in the payment period
If a student delays attending school but begins attendance within the first 30 days of enrollment, the school may consider the student to have maintained eligibility for the loan from the first day of the enrollment period.

amount of the loan—the change in enrollment may have resulted in a significantly lower cost of attendance. The aid administrator must document this review in the student's file.

Also remember that your school cannot retain the loan funds indefinitely—check Chapter 5 on "Cash Management" in *Volume 2*.

When you report the student's change in enrollment status but expect the student to resume enrollment within a time period that is less than a payment period in length, you must specifically request that the lender make the second or subsequent disbursements. Otherwise, the lender is required by law to cancel the second disbursement. (See 34 CFR 682.207(b))

If the student has transferred from another school, you need to be sure that the student is not in default and is still within the annual and aggregate loan maximums. You can confirm this by checking the student's loan history on the NSLDS Web site, or by reviewing the NSLDS loan history section of the ISIR, which has information that is current as of the time the ISIR was processed. You must also submit the transfer student's name and identifiers to NSLDS through the "Inform" process, so that NSLDS can notify you of any changes in the student's loan history that might affect eligibility at your school. (See Volume 1, Chapter 3 for more on the Transfer Student Monitoring process, and Chapter 3 of this Volume for more information on using the Aggregate Outstanding Principal Balance to determine if a student has exceeded the aggregate loan limits.)

If the student established eligibility for payment, but became ineligible before receiving the full payment, you may make a late disbursement to pay for unpaid educational costs incurred while the student was enrolled and eligible. You are not required to obtain detailed expenditure information to establish the student's educational costs, but may use a policy to be applied in all such cases. You may make a late disbursement up to 120 days after the student withdrew or dropped below half-time enrollment; after 120 days have passed, you must get approval from the Federal Student Aid programs. (This new rule is effective July 1, 2003, but the regulations permit early implementation as of the publication date of November 1, 2002.)

SUBSEQUENT & RETROACTIVE DISBURSEMENTS

In a non-term program, you cannot make a subsequent disbursement to the student until he or she has successfully completed the coursework already paid for. ***NEW*** In a non-term program using credit hours, this means the student must complete the weeks of study associated with the payment period as well as earning the credit hours. (This change was made to 34 CFR 668.22 on November 1, 2002, effective on July 1, 2003.)

To include an earlier period of eligibility when certifying a Stafford Loan, the student would have had to complete at least a half-time courseload in that period. At a term school, all completed coursework counts towards enrollment status, including F's and incompletes. For instance, you could include the Fall term and its costs when certifying a loan for the student in the Spring, if your school's half-time standard is 6 credit hours and the student received a B and an incomplete in two 3-hour courses taken that Fall.

If a student attended the previous payment period, but did not maintain eligibility for a Stafford Loan, you may not include the previous payment period or its costs in the loan period.

Disclosure Statement

The disclosure statement is not the same thing as the notification of a disbursement that your school must send to the student. An FFEL lender must give a borrower a copy of an initial disclosure statement prior to, or at the time of, the first loan disbursement. In the Direct Loan Program, a school may elect to provide this disclosure to the student, or, if the school prefers, the statement will be provided to the student by the Loan Origination Center. In addition to general information about the student's rights, this disclosure will include some information that is specific to the student's loan, such as:

• the principal amount of the loan and the actual interest rate;

• the amount of any charges, including any origination and insurance fees to be collected by the lender before or at the time of each loan disbursement;

• when repayment is required and when the borrower is required to pay the interest that accrues on the loan;

• the name and address of the lender and the address to which communications and payments should be sent;

• the minimum annual payment required, and minimum and maximum repayment periods; or

• an estimate of the monthly payment due the lender, based on the borrower's cumulative outstanding debt (including the loan applied for).

The disclosure statement must provide the most up-to-date information concerning the loan and must reflect any changes in laws or federal regulations that may have occurred since the promissory note was signed. If the student has questions about the statement or wishes to cancel the loan, he or she should contact the lender immediately. In either case, the student should **not** endorse a loan check or an EFT form authorizing transfer of loan proceeds to his or her account.

Following Up: After the Loan Is Made

CHAPTER 7

After a loan is disbursed, you still may have to make adjustments or even notify the lender that the borrower was ineligible for the loan. You also must report the enrollment status for your students who have loans, because this may qualify them for deferment on loans received at other schools.

CHANGES IN LOAN AMOUNT AND OVERAWARDS

You may find that a student's eligibility for a Stafford Loan or for the subsidized amount of a loan has changed after the first disbursement is made. For instance, the student may have updated his/her dependency status, becoming eligible for the higher loan limits for independent students.

On the other hand, the student's eligibility might decrease for a number of reasons, including an increase in the EFC. If a student withdraws from classes (but remains enrolled at least half time) the reduction in costs may affect the student's loan eligibility. Or the student might receive a scholarship after you certified the loan, decreasing the student's financial need.

If the student's aid package exceeds his/her financial need after recalculating for changes to cost, EFC, or EFA, the excess aid is considered an overaward. If you discover the overaward before the loan is completely disbursed, you must eliminate the overaward by cancelling or reducing the Stafford Loan, and/or reducing other aid in the student's package, as necessary. If the loan has been entirely disbursed when the change in eligibility is discovered, no action is required of the school. (However, if the excess aid or subsidy was the result of "false or erroneous" information provided by the student, the lender is required to send a final demand letter—see sidebar.)

In a term program, the student may choose not to enroll in one of the terms in the loan period. In this case, the student will not be eligible to receive the disbursement for that payment period. Under a Scheduled Academic Year, the overall loan amount may be reduced by the amount of the disbursement that was not made, unless the student's costs and financial need for the terms actually attended are high enough to make her eligible for the original loan amount. Also, if a Borrower-Based Academic Year is used, the overall loan amount may not change if the student is paid for additional payment periods that can be included in the loan period.

Treatment of excess loan amounts-overaward tolerance

A $300 overaward tolerance is permitted if the student's financial aid package includes a Stafford Loan plus Federal Work-Study (FWS). If there is no FWS in the student's financial aid package, no tolerance is allowed under FFEL.
34 CFR 682.604(i)

Consequence of failure to establish eligibility

If the lender can substantiate that the borrower was ineligible for all or part of a loan (or all or part of the interest subsidy) that the borrower received based on actions taken or "false and erroneous" information provided by the borrower (or the student, in the case of a PLUS), the lender is required to send a final demand letter to the borrower.
34 CFR 682.412(a) and 34 CFR 685.211(e)

Effect of missed term on loan amount

In some cases, a student may not receive the full amount that the school originally certified if he/she misses one of the terms in a Scheduled Academic Year.

For instance:

Barbara G is awarded a $2625 Stafford for 3 quarters based on a cost of $9,000.

After a 3% loan fee is deducted, she receives $848.75 for the fall quarter. Barbara misses the winter quarter, but the financial aid office notifies the lender that Barbara plans to return for the spring quarter. She returns in the spring quarter and receives the expected $848.75. Thus, her total loan for the academic year is $1,750.

➔ Note that if Barbara's costs for the two quarters are high enough, the school could also elect to pay her the full loan amount.

➔ Barbara could also receive the full loan amount by attending the subsequent summer or fall term, if a Borrower-Based Academic Year is used.

You have a great deal of flexibility in changing the loan amount and disbursements during the loan period. Check with the lender for its procedures for making adjustments to the loan amount. For Direct Loans, see the *School Guide,* "Change Records and Loan Adjustments."

If the student received more than the annual or aggregate maximum due to inaccurate information provided inadvertently, then the student can continue to receive FSA funds if he/she repays the excess amount or makes arrangements (satisfactory to the holder of the loan) to repay the excess amount. (34 CFR 668.35(b))

WITHDRAWAL OR LOSS OF ELIGIBILITY

If you discover that a student did not register for the period of enrollment covered by the loan or never established eligibility for the loan, you can't make a late disbursement. You must return the loan proceeds to the lender within 30 days of this determination. There are several scenarios in which a student can register for classes but fail to qualify for the loan: for instance, if the student does not begin attendance in any of his/her classes.

If you learn after loan funds are disbursed that the student or parent provided "false and erroneous" information, you must notify the lender (or Direct Loans) as soon as possible if the borrower was ineligible for all or a portion of the Stafford or PLUS Loan. The lender (or Direct Loans) will send a demand letter to the borrower requiring repayment of the ineligible loan funds. If the borrower fails to repay the funds within 30 days after the letter is mailed, the entire loan may be placed in default. (See 34 CFR 682.412 or 685.211 for Direct Loans)

When an FSA recipient withdraws from all classes after establishing eligibility and receiving FSA funds, a portion of his or her aid may have to be returned. See Volume 2, Chapter 6 of the *FSA Handbook* for a complete discussion of the procedures for calculating the return of funds to the FSA programs. **This requirement is not the equivalent of a refund policy.** The FSA regulations do not dictate an institutional refund policy nor do they prohibit a school from developing its own refund policy or complying with refund policies required by outside agencies. Under the new requirements, a school must return unearned FSA funds as soon as possible, but no later than 30 days after the date the school determines the student withdrew. This new provision reduces the time frame from the previous 60 days to 30 days for FFEL schools to return unearned FFEL funds to the lender. (34 CFR 668.22 (j))

Schools are still required to provide students with the details of the school's refund policy in addition to providing information on the FSA program requirements for determining the amount of aid that will have to be returned to the FSA programs if the student withdraws.

Reduced loan fees based on returned disbursement

If a school returns an FFEL disbursement or any portion of an FFEL disbursement to a lender, the lender will reduce any origination and/or insurance fees that it withheld, in proportion to the amount returned. If a student returns an FFEL disbursement or any portion of an FFEL disbursement to the lender, the lender will only reduce the fees if it receives the returned amount within 120 days after disbursement. For information on how returning Direct Loans affects loan fees and accrued interest on loans, see the *Direct Loan School Guide*.

Leave of Absence vs. Withdrawals

In some cases, a student will temporarily withdraw from classes, but intend to return and complete the coursework.

If the leave of absence meets the requirements of an "Approved Leave of Absence" in 34 CFR 668.22(d) and the student returns to resume his/her studies, no return of student aid funds is required.

NEW ➧ The regulations were revised on November 1, 2002, to remove the limit of one leave of absence in a 12-month period. Under the new rules, the student may take more than one leave of absence, not to exceed a total of 180 days, in a 12-month period. See Volume 2, Chapter 6 for more details.

Transfer situations

If the student transfers into another program at your school, the amount that the student received in the first program may affect the student's eligibility for a Stafford loan in the new program. See Chapter Three for more information.

NEW ➧ Enrollment status in modular programs

A student who receives a Stafford disbursement at the beginning of a series of modular courses with the expectation of being enrolled at least half-time, does not have to return the disbursement if he/she drops out before beginning enrollment in all of the anticipated modules. For instance, a student who enrolls in a term or payment period of four consecutive month-long modular courses, but drops out in the first month, would not have to return the Stafford/PLUS for that period to the lender. However, note that you would have to recalculate the student's Pell Grant on the basis of 1/4-time enrollment because he/she did not begin attendance in the subsequent modules.

EXCHANGING INFORMATION ON BORROWERS

Enrollment Reporting with NSLDS and the Roster file

All schools participating in the FSA loan programs must have some arrangement to report student enrollment data to the National Student Loan Data System (NSLDS) through a Roster file (formerly called the Student Status Confirmation Report or SSCR). Student enrollment information is extremely important, because it is used to determine if the student is still considered in school, must be moved into repayment, or is eligible for an in-school deferment. For students moving into repayment, the *out of school status effective date* determines when the grace period begins and how soon a student must begin repaying loan funds.

At scheduled times during the year, not less than semiannually, NSLDS sends Roster files electronically to your school (or its designated servicer) through its SAIG mailbox. The file includes all of the school's students who are identified in NSLDS as Stafford borrowers (or the beneficiaries of a PLUS loan). The file is not necessarily connected to loans made at your school—you also must report information for students who received some or all of their FSA loans at other schools but are currently attending your school.

Your school (or the servicer) must certify the information and return the Roster file within 30 days of receiving it. You may also go to www.nsldsfap.ed.gov and update information for your school's students online. You're required to report changes in the student's enrollment status, the effective date of the status and an anticipated completion date. Changes in enrollment to less than half-time, graduated or withdrawn must be reported within 30 days. However, if a Roster file is expected within 60 days, you may provide the data on that roster file.

If the Roster file that you are returning contains records that don't pass the NSLDS Enrollment Reporting edits, you will receive a response file with the records that didn't pass. You'll need to make the necessary corrections to these records and resubmit them. If you are using a servicer, you may need to assist the servicer in correcting these errors. Please remember that your school is ultimately responsible for notifying NSLDS of student enrollment changes.

If your school reports enrollment data to the NSLDS, it does not have to complete SSCRs received directly from guaranty agencies. (Receiving an SSCR report from a guaranty agency may be an indication that your school has not reported to NSLDS within the last 6 months.) However, you must still respond to requests for borrower information from guaranty agencies, lenders, and loan servicers. You must continue to provide loan holders and loan servicers with a borrower's enrollment status, enrollment history, or information needed to locate the borrower for deferment and other repayment purposes. This information includes last known address, change in surname, and employer's name and address.

Enrollment Reporting Requirements

34 CFR 682.610 FFEL
34 CFR 685.309(b) Direct Loans
"Dear Colleague" letter GEN-99-9
"Dear Colleague" letter GEN-96-5
"Dear Colleague" letter GEN-96-17

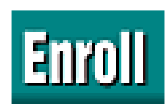
Enrollment Reporting/SSCR Technical References

For more information on reporting enrollment information to NSLDS, including record layouts, error codes, etc, , see the **Enrollment Reporting Guide** (formerly the *SSCR User's Guide*)**,** which is available on-line on the **ifap.ed.gov** site (listed alphabetically under "Current Publications by Title").

If you will be using the SSCR software package for Enrollment Reporting, see the **SSCR Technical Reference,** which includes record layouts, error codes, etc. and is available in Word and PDF formats at: **www.fsadownload.ed.gov**

Updating enrollment information on the Web

You can create or update student status by using the "Enroll" tab on the NSLDS Web site for aid professionals:
https://www.nsldsfap.ed.gov/
Support: **1-800-999-8219**



Enrollment Status Codes

These codes are listed in the Record Layouts in the SSCR Technical Reference. Data submitted to the Student Loan Clearinghouse uses most of these codes.

A = Approved Leave of Absence
D = Deceased
F = Full time
G = Graduated
H = Half time or more, but less than full time
L = Less than half time
W = Withdrawn
X = Never attended
Z = Record not found

Privacy: Sharing Student Records with Lenders

A student authorizes his or her school to release information to lenders by signing a statement as part of the loan application process. This authorization covers information relevant to the student's or parent's eligibility to borrow. Examples of such information are enrollment status, financial assistance, and employment records.

For more information on privacy requirements, see Volume 2: Institutional Eligibility

Loan information from the guarantor

> Upon request, the guarantor must inform the school of students in default on FFELs.
34 CFR 682.401(b)(24)

> If the lender requests preclaims assistance, the guarantor must inform the school of this request, if the school has requested such notification.
34 CFR 682.404(a)(5)
HEA § 428(c)(2)(H)

> The guarantor must notify the school when a loan made at that school changes hands, if the school requests such information.
HEA § 428(b)(2)(F)

Providing borrower information at separation

Within 60 days after the exit counseling session, your school must provide the Direct Loan Servicing Center or the guaranty agency that was listed in the borrower's student aid records with updated information about—

- the borrower's future permanent address,
- the borrower's Social Security Number,
- the identity and address of the borrower's expected employer,
- the address of the borrower's next of kin, and
- the borrower's driver's license number and state of issuance.

Exchanging information about delinquency and default

To promote loan repayment, DL schools are encouraged to notify the Direct Loan Servicing Center if they receive new information about a delinquent borrower's location or employment. The Direct Loan Servicing Center sends participating schools a monthly electronic report of all delinquent and defaulted Direct Loan borrowers who took out loans while attending the school. The report, which contains the borrowers' names, addresses and phone numbers, is organized by the number of days past due so that schools can contact and counsel borrowers to avoid default. The school may also wish to work with borrowers who have defaulted on their Direct Loans to help these borrowers bring their loans out of default.

An FFEL school may make agreements to provide the holders of delinquent loans with information about the delinquent borrower's location or employment. An FFEL school may also try to contact the borrower and counsel him or her to avoid default.

FFEL schools may request that a guaranty agency provide information about students who were enrolled at the school who have defaulted on their Stafford Loans. The guarantor may not charge for this information. You may also request that the guaranty agency notify your school whenever a lender requests default aversion assistance on a loan made at your school, and provide the borrower's name, address, and Social Security Number. (The guaranty agency may charge a reasonable fee for this service.) Your school may only use the information to remind the borrower to repay his or her loan(s).

If you've requested it, the guaranty agency must also notify your school when loans to its students are sold, transferred, or assigned to another holder. (The notification must include the address and telephone number of the new loan holder.) This notification requirement only applies to loans that are in the grace period or in repayment, and only if your school was the last school the borrower attended before the loan entered repayment. (For instance, if a student received several Stafford Loans while earning a bachelor's degree at your school, but pursued a master's degree at another school before those loans entered repayment, the guarantor is not required to notify you if the loan is sold.)