Borrower Eligibility for DL / FFEL

CHAPTER 2

To receive a Stafford Loan, a student borrower must meet the basic eligibility requirements for SFA 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 SFA 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).

To receive a Stafford Loan or to benefit from a PLUS Loan, a student must meet the general eligibility criteria for all SFA programs, as explained in *Volume 1: Student Eligibility*. In particular, note that a student or a parent who owes a repayment on an SFA grant or is in default on an SFA loan is ineligible for additional SFA funds. In addition, the parents may not receive a PLUS Loan for the student's benefit if the student owes a repayment on an SFA grant or is in default on an SFA loan is ineligible for additional SFA funds. (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 SFA programs—see Volume 1 of the *SFA Handbook*).

ELIGIBLE PREPARATORY COURSEWORK

Generally, a student must be enrolled or be accepted for enrollment in a degree or certificate program to receive SFA funds. However, there are three exceptions that apply to the FFEL / DL programs.

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

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

- **Graduate preparatory work.** An otherwise eligible student may apply for a Stafford Loan for a single consecutive 12-month period if the school has determined and documented that the coursework is necessary in order for the student to enroll in a graduate or professional program and if the student is enrolled at least half time. 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. The school must document that the coursework is needed before the student can be admitted into a degree or certificate program.

- **Coursework required for teacher certification.** A student with a baccalaureate degree who is enrolled at least half time in coursework necessary for a credential or teacher certification at the elementary or secondary level may apply for a Stafford Loan without being enrolled as a regular student. 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 *SFA 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 for a need-based Stafford Loan may apply for an unsubsidized Stafford Loan. 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 difference between the annual loan limit and the subsidized amount.

An **unsubsidized** student loan does not qualify for a federal interest subsidy. In most cases, the interest that accumulates on an unsubsidized loan will be capitalized and added to the principal balance. 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 the repaying the loan will be higher. Note that all PLUS loans are unsubsidized loans.

DETERMINING FINANCIAL NEED

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

Cost of Attendance

Volume 1, Chapter 10 of the *SFA Handbook* explains the components of the cost of attendance for the SFA 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. In Pell, the Cost of Attendance is 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, 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.

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

Estimated Financial Assistance (EFA)

The student's **expected 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 EFA that reduces the student's overall financial need. When certifying a loan, you have to subtract the student's EFA 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, loans, or work that is awarded on the basis of postsecondary enrollment. But there are two notable government programs that are treated a little differently. **Montgomery GI Bill**

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

Need and Religious Orders

As explained in the Volume 1: Student Eligibility, because students who are members of certain religious organizations are considered to have no financial need for SFA program purposes, such students are not eligible for need-based SFA funds. They may, however, be eligible for unsubsidized Stafford Loans or unsubsidized Consolidation Loans, or, if dependent, for PLUS Loans. (PLUS Loans are also unsubsidized.)

Offsetting the EFC Example:

Janet Jones is an independent student with an $8,000 cost of attendance, an EFC of $2,000, and is receiving a $3,000 Pell Grant $2,000 in subsidized Stafford Loan and a $2,000 low-interest loan from a research foundation.

There is no overaward in this situation, as the $2,000 research loan can be considered as a substitute for that portion of her EFC. In fact, Janet is still eligible for up to $1,000 in the form of an unsubsidized Stafford Loan.

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 EFA for subsidized Stafford Loans. However, you *do* include these benefits in the EFA when certifying an unsubsidized Stafford or PLUS. (See 34 CFR 682.200(b) and 34 CFR 685.102(b))

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

- 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 consider whether the student is eligible for certain other SFA programs that would reduce his/her indebtedness.

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 fo a subsidized Stafford is less than the amount for the same amount borrowed with an unsubsidized loan. However, if the amount of the subsidized Stafford is less than $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 *Institutional Student Information Record* (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.

USING NSLDS TO CHECK ELIGIBILITY FOR TRANSFERS

If the admissions office hasn't already done so, the financial aid office must determine whether a student previously attended an eligible school. If the student has attended another postsecondary school, you must check the student's financial aid history using the National Student Loan Data System (NSLDS). A student who has attended another postsecondary school may have already received some FFEL/DL funds that must be counted as part of the annual or aggregate loan limits. It's also possible that the student owes a repayment on a grant or a defaulted loan from the SFA programs, which would mean that the student is no longer eligible for SFA funds.

For many years, the only way a school could verify what aid a transfer student had previously received was to contact the student's prior school(s) and request a financial aid transcript. Since 1996, schools have been authorized to rely on information from the NSLDS to determine if a student transferring between academic years had previously received aid. However, there were restrictions on the use of NSLDS to confirm the previous aid for a "mid-year" transfer student, because of the turnaround time required for award information to be collected from schools and lenders and reported to NSLDS. For the 2000-2001 award year, however, these restrictions have been modified to make it easier for you to use NSLDS to check on the previous aid received by transfer students.

Beginning July 1, 2000, you may obtain student eligibility information for a mid-year transfer student directly from NSLDS instead of obtaining a paper FAT from the prior school. You must access the NSLDS no earlier than 30 days prior to the beginning of the first payment period for which you expect to make an SFA disbursement to the student. For example, if the mid-year transfer student will begin attending the new school for the Spring term that starts on January 29, you must access NSLDS on or after December 29. By checking NSLDS no earlier than 30 days before the payment period, you increase the probability that any late payments made for attendance at other schools will be reported on NSLDS.

You may rely on NSLDS information in determining a student's eligibility for SFA funds, either by querying NSLDS for individual students or using the batch process to request financial aid histories for multiple students. It is important to remember that NSLDS information provided as part of the Institutional Student Information Record (ISIR) does not meet the new requirement unless the ISIR was processed by the CPS within the 30 day period preceding the student's first payment period at your school.

You may **not** release funds to a student if the information from NSLDS or a Financial Aid Transcript states that the student is in default on an SFA loan or that the student owes a repayment on an SFA grant. See Volume 1 of the *SFA Handbook (Student Eligibility)* for information on how to resolve these eligibility issues.

Financial Aid History Requirement & NSLDS

Additional information on how this requirement applies to all of the SFA programs can be found in Volume 2, Chapter 3 of the SFA Handbook, and Dear Partner Letter GEN 00-12

Using NSLDS

The NSLDS User's Guide and other materials are currently posted on IFAP under "Current SFA Publications." Technical assistance for NSLDS is available by calling 1-800-999-8219

Parent Eligibility for PLUS

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

PARENT BORROWER ELIGIBILITY

For the purpose of determining PLUS Loan eligibility, a parent is a student's biological or adoptive mother or father. The spouse of a parent (i.e., the student's stepparent) who has remarried 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 SFA 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 SFA grant or is in default on an SFA loan is ineligible for a PLUS Loan, unless he/she has made satisfactory arrangements to repay the loan. However, the parent's ineligibility for a PLUS Loan does not affect the student's eligibility for SFA funds. See *Volume 1: Student Eligibility* for more information on these general eligibility criteria.

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.

If the parent borrower has previously borrowed from the FFEL Program, he or she must reaffirm any FFEL amount on which collection activity has ceased, as described in 34 CFR 682.201(a)(4) for students. If the parent had a prior FFEL 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 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 SFA debt.

A lender is permitted to establish a more stringent definition of adverse credit history than these regulatory criteria. Please note that 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 may instead secure an endorser without an adverse credit history in order to qualify for a PLUS Loan. 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 instead 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.

List of Guaranty Agencies
SFA maintains a current listing of guaranty agencies on the Web at: www.ed.gov/offices/OPE/guaranty.html

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, or income. You must notify the borrower in writing of the reason for the decision, and keep documentation supporting the decision in the student's file. (34 CFR 682.603 and 34 CFR 685.301)

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

An "origination fee" is charged for Stafford Loans in both the FFEL and the DL programs. For FFEL, the fee may not exceed 3% of the principal amount of the loan. A 3% origination fee is deducted for all Direct Stafford Loans. The fee is deducted proportionately from each payment forwarded to the school by the FFEL lender or the DL Loan Origination Center.

A lender may charge a lower origination fee, but, with one exception, it must charge the lower fee for *all* of the subsidized Stafford Loans that it makes. The exception is a sub-group of Stafford borrowers specified in the regulations — those who qualify for a subsidized Stafford loan or who have an EFC low enough to qualify for a Pell Grant.

If a lender charges a lower origination fee, it must charge the same reduced fee on *all* Stafford loans it makes to borrowers who live in the same State or attend school in the same State. Similarly, if the lender applies the lower fee to a borrower's unsubsidized Stafford loan, the lender must also apply the lower fee to the borrower's subsidized Stafford loans. (See 34 CFR 682.202(c)).

For PLUS loans in the FFEL program, the origination fee is always 3% and may not be reduced by the lender. In Direct Loans, the origination fee for a PLUS is 4%.

In the FFEL program, the lender may also charge an insurance fee on Stafford and PLUS loans to defray the insurance fee charged by the guarantor (the fee is limited to 1%).

While you must still include the whole awarded amount of Stafford and PLUS loans when packaging, you may include the origination and insurance fees in the student's cost of attendance.