

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

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://dlnote.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/ANNO207.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



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.

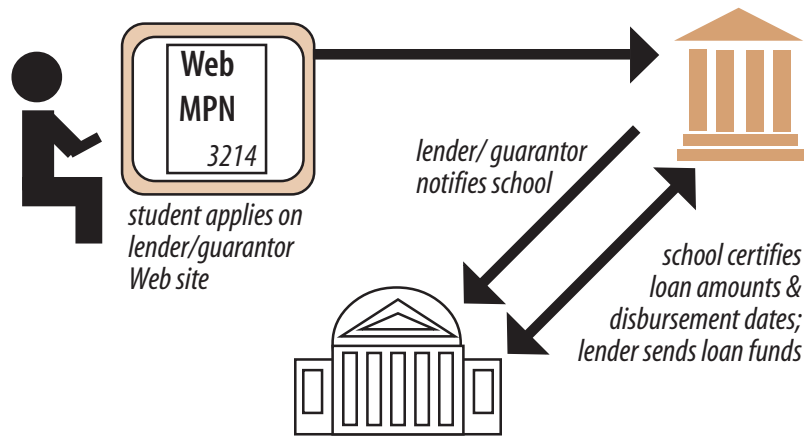
Copies of the new Master Promissory Note and related materials are available on-line :

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 EDEExpress 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/dpclatters/GEN0207.html>
Direct Stafford Loan MPN <http://www.ed.gov/DirectLoan/brr.html>