

The MPN & the Stafford/PLUS Loan Process

The borrower must complete a Master Promissory Note (MPN) to receive a Stafford or PLUS loan. 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 Volume 2) to the student if this is the student's first Stafford loan. Disbursement requirements for FSA funds (including Stafford/PLUS loans) are described in Chapter 3.

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, guaranty agency, or the Department. Because an MPN can be used as a separate promissory note for a given loan period or for multiple years of borrowing, the loan amount and loan period are not reported on the MPN.

In the traditional paper process, the MPN might be completed at the school by the student and submitted to the lender or school. 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 may also offer the students the option of completing and signing an electronic MPN. (Note, however, that schools may not *require* a student to use an electronic MPN. A student who wishes to complete a paper MPN must be given that option.) 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 notify COD if you want it to accept

CHAPTER 1 HIGHLIGHTS

■ Student applies

- student must complete a FAFSA and MPN to get a Stafford loan and PLUS if required by school
- option to use MPN for loans over multiple years
- borrower confirmation required for loan disbursements in subsequent years

■ PLUS MPN

- also has multi-year feature

■ School certification/origination

- certify eligibility
- specify amounts and disbursement dates
- submit to lender (FFEL) or COD (Direct Loans)
- notification to borrower of loan disbursement & opportunity to cancel

■ Related information

- Stafford/PLUS award limits, Volume 3, Chapter 4
- Packaging rules, Volume 3, Chapter 6
- Loan Counseling, Volume 2, Chapter 6
- Disbursement rules for FSA funds (including time-frames for Stafford/PLUS disbursements) are described in Chapter 3 of this Volume.

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 Master Promissory Note are provided by lenders, guarantors or the COD center to borrowers and schools. For your reference, sample copies of the MPN and related materials are available on-line :

FFEL Stafford Loan

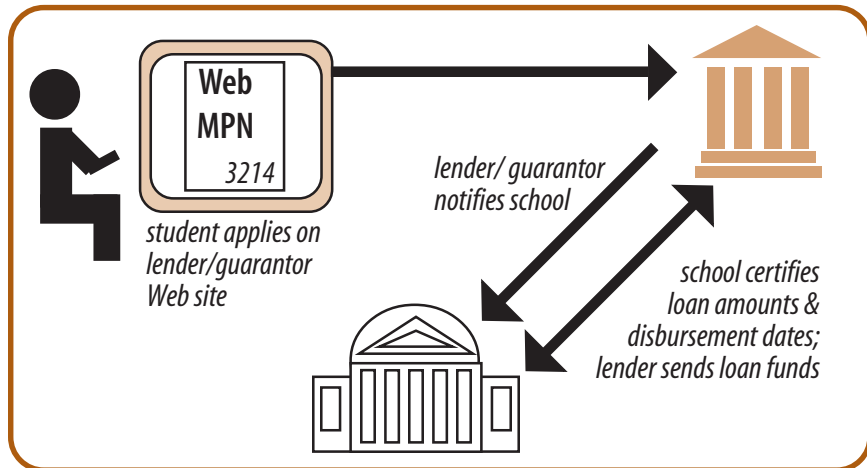
<http://ifap.ed.gov/dpclatters/GEN0207.html>

Direct Stafford and PLUS loans

<http://www.ed.gov/DirectLoan/brr.html>

DL MPN on the Web:

<http://dlenote.ed.gov>



Further information about 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 were only *required* for loan periods beginning on or after July 1, 2000, and for any loan certified on or after July 1, 2000.

References:

“Dear Colleague” letter GEN-98-25

FFEL regs: 34 CFR 682.401(d)

DL regs: 34 CFR 685.402(f) and definition of “Master Promissory Note” in 34 CFR 685.102.

***NEW* Power of Attorney—Completing the MPN**

A third party with “power of attorney” for the borrower may sign the promissory note if the borrower is unable to sign. Use of a power of attorney when signing an MPN limits the use of the MPN to one loan. If the borrower submits his or her MPN through the school, the school must retain a copy of the original power of attorney in its files. If the note is signed with a power of attorney, the student must authorize the school in writing to credit the loan funds to his or her account at the school.

electronic promissory notes for your school, and whether you want COD to only accept promissory notes for students who have an origination record from your school. Students and parents can log onto the Web and complete the MPN for Direct Stafford and PLUS loans at <http://dlenote.ed.gov>

If your students borrow Stafford or 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.

In the FFEL program, electronic completion of the MPN does not always include electronic signatures. A school or borrower could require/insist upon “wet” signature even if the MPN is otherwise completed electronically. In the Direct Loan Program, a borrower who wishes to complete an electronic MPN must sign the MPN electronically. If a school or borrower does not want an MPN signed electronically, a paper MPN must be completed.

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 PLUS Application and Master Promissory Note and, if required by the school, a FAFSA. 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, permanent address, date of birth, Social Security Number, driver's license number, and two personal non-student adult references with U.S. addresses. If the borrower previously borrowed from a particular lender or the lender uses electronic loan processes, 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 made student loans to students 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 and a school may not refuse to certify a loan based on a borrower's choice of lender or guarantor. (*Cite: Section 432(m)(1)(B) of the HEA*)

Multi-year use of the MPN & when a new MPN is required

The MPN, when used as a multi-year document, enables student and parent 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). A multi-year MPN may be used by all domestic schools participating in the FFEL program.

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 not eligible to use, or chooses not to use, the multi-year feature of the MPN.
- The student transfers from an FFEL school to a Direct Loan school, and there's no valid Direct Loan MPN on file at the COD Center. Similarly, a student would need a new MPN if transferring from a Direct Loan to an FFEL

Declining the use of the multi-year MPN

Schools are not required 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 and don't want to use the multi-year feature for ANY of your students, contact the COD School Relations Center. See Direct Loan Bulletins DLB 00-20 and 03-02.

Student loan borrowers may decline to use 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 school or lender (for FFEL) in writing. Direct Loan borrowers may send their written notification to the Direct Loan Servicing Center (DLSC) or to their school to forward to COD. The effective date is the date the school, lender, COD, 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.

Using the MPN for multiple loans within an academic year

Note that the MPN may be used to make multiple loans within the same academic year. Even schools that are not authorized or choose not to use the multi-year feature of the MPN can make more than one loan under an MPN within the same academic year.

Multi-year feature applied to all US schools

In 2003, schools located in the United States that were not previously eligible to use the multi-year feature of the MPN were authorized to begin using it, effective for:

- Any FFEL loan certified by the school on or after March 1, 2003, regardless of the period covered by the loan.
- Any Direct Loan for the 2003-2004 year processed after the 2.0 Release of the Common Origination and Disbursement System. (See Direct Loan Bulletin DLB-03-02).

Lender of Last Resort

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. See Volume 1, Chapter 6 for more information.

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 Borrower's Rights and Responsibilities Statement.

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

→ For any subsequent loans provided under an existing MPN, a "Plain Language Disclosure (PLD)" provided by the lender or COD. (The PLD is an abbreviated version of the Borrower's Rights and Responsibilities Statement that was provided along with the MPN.)

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

school. (New MPNs would also be required if the school itself changes from using DL to FFEL or vice versa.)

- A school's lender requests that a school no longer use the multi-year feature of the MPN.

Also, a borrower may request their MPN to be an annual MPN or may request in writing that no additional loans be made using their current multi-year MPN.

In some cases, a new MPN will have to be executed because the maximum period for use of the MPN has expired. At Direct Loan schools, additional loans may no longer be made under an MPN after the earlier of:

- The date COD or the school receives the borrower's written notification that no further loans may be made.
- One year after COD the date the borrower signed the MPN or the date COD receives the MPN, if no disbursement is made during that 12-month period, or
- Ten years after the date the borrower signed the MPN or the date COD receives the MPN. If a portion of a loan is made on or before the 10-year limit, remaining disbursements of that loan can be made.

Although the Direct Loan Program regulations allow the second and third expiration conditions to be based either on the date the borrower signed the MPN or the date COD receives the MPN, COD currently uses the date the MPN is received.

At FFEL Program schools, additional loans may no longer be made under an MPN after the earlier of:

- The date the lender receives the borrower's written notification that no further loans may be made.
- Twelve months after the date the borrower signs the MPN, if no disbursements are made during that period, or
- Ten years from the date the student signs the MPN or the lender receives the MPN. If a portion of a loan is made on or before the 10-year limit based on the signature date, remaining disbursements of that loan can be made.

A crucial step in multi-year use of the MPN is the confirmation process, which ensures that a borrower is interested in continuing to borrow and is equivalent to the borrower signing a new note for each academic year (in Direct Loans) or period of enrollment (in FFEL). The confirmation process will be discussed in the next chapter, along with other notifications and authorizations associated with disbursing FSA funds. Schools (DL) or schools and lenders

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 provided the goals of the confirmation process are accomplished.

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 for the academic year or loan period 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 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 FFEL lenders must document their confirmation procedures. A school (and lenders in the the FFEL Program) 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.

(FFEL) must develop and document a confirmation process to ensure that the borrower wants subsequent loans. The confirmation process may be designed to 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 either affirmatively requests or accepts the proposed loan type and amount or requests changes to the proposed loan package.

PLUS MPN approval for foreign schools

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.

PLUS Certification Form (FFEL only)

The Department has developed a paper *Federal PLUS Loan Information and School Certification* (PLUS Certification form) to be used by FFEL schools that do not complete loan certification electronically. This form was approved as part of the PLUS MPN documents package and is printed and distributed by lenders and guaranty agencies.

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 secure the parent's signature and provide the school certification data.

- **Passive confirmation**—school does not disburse the loan until the borrower is notified of the proposed loan package and the time given to the borrower to respond has elapsed. (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 be used as part of either an active or passive confirmation process. 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.

PLUS MPN

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. 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 in the FFEL Program. For further information on the implementation of the FFEL PLUS MPN, see GEN 03-03, for Direct Loans DLB-03-07.

At U.S. 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 for each dependent student, or if both parents want to borrow individually on behalf of the student under the same conditions discussed for the Stafford Loan MPN. A new PLUS MPN would also be required under the same conditions discussed for the Stafford Loan MPN.

PLUS certification specifying amount to be borrowed

Because the PLUS amounts the parent may borrow can be certified up to the student's cost of attendance minus other financial aid for the loan period, 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 requests.

Your school can collect this information before certifying the loan using various means such as the PLUS Certification form (see sidebar), a parent response section on your financial aid award letter, a separate PLUS form, documented telephone or electronic requests, or other means. You may also make arrangements with FFEL lenders for them to collect this information before approving the loan. Whether your school or the lender collects the information, you must establish and document how the parent's loan amount 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 any adjustment to the loan amount.

If you are eligible to use the multi-year PLUS MPN, the parent's loan request for subsequent years is sufficient documentation to make additional loans—there is no separate confirmation process for PLUS loans—but the parent's loan amount request must be secured for each loan.

Adverse credit history & use of endorser

To borrow a PLUS loan, the parent applicant must not have adverse credit. Adverse credit is defined in the regulations as the applicant being 90 days or more delinquent on a debt or having been subject in the last five years to a default determination, bankruptcy discharge, foreclosure, repossession, tax lien, wage garnishment, or write-off of an FSA debt. The absence of any credit history is not considered adverse credit. FFEL lenders may establish more restrictive credit standards for determining adverse credit.

When determining whether the parent is ineligible for a PLUS loan based on adverse credit history, the lender, or Department, for Direct Loans, must obtain a credit report on the parent from at least one national credit bureau. The report must be obtained within a timeframe reasonably related to the loan period, to ensure an accurate determination of adverse credit. 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.

If the parent borrower has an adverse credit history, the applicant has the option of receiving a PLUS loan using a creditworthy endorser. If an endorser will be used, a separate Endorser Addendum is required for each PLUS Loan. Any loan for which an endorser is required must be made under a new PLUS MPN, with a new Endorser Addendum, because the endorser is liable only for the specific loan or loans he or she has 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.

SCHOOL CERTIFIES/ORIGINATES THE LOAN

The school's primary responsibilities in the loan application process are ensure the completeness and accuracy of the MPN based on information it has available to it if the MPN is initiated or received by the school and to certify that the student is eligible for the loan amounts requested based on annual and aggregate loan limits. If your school initiates or receives the MPN, you must also ensure the completeness and accuracy of the MPN based on the information available to your school. In Direct Loans, this information is part of the loan origination record sent electronically to COD. An FFEL school may submit the certification to the lender

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 Participants in COD.

→ Full 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.)

→ Phase-in participants should use 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 on COD records, you may e-mail:

→ codsupport@acs-inc.com

Or, you may call:

1-800-4-P-GRANT (Pell)

1-800-848-0978 (Direct Loans)

Additional eligibility for dependent students whose parents cannot borrow PLUS

If a dependent student's parents have not been able to borrow a PLUS loan, the student may be eligible for higher unsubsidized Stafford borrowing limits. See Volume 3, Chapter 4.

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.

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)

Originating/certifying a loan

FFEL—34 CFR 682.603

Direct Loans—34 CFR 685.301

electronically or on the new paper Federal Stafford Loan School Certification form.

Whether your school uses the MPN as a “single-loan” promissory note or multi-year note, you must provide this certification each time a loan is made under the MPN.

Certifying eligibility

You must certify that the student or parent is an eligible borrower (see *Volume 1—Student Eligibility*). For PLUS applicants, you must also determine the eligibility of the dependent student on whose behalf the parent is borrowing. The school's certification also includes the student's grade level, loan period and the amounts of the disbursements (using the rules described in *Volume 3, Chapter 4*), as well as the student's enrollment status and anticipated completion/graduation date.

Your school must confirm the student's dependency status when determining whether a parent is eligible to borrow under the PLUS Program or the student is eligible for additional unsubsidized Stafford loan limits. Your school must also confirm the Social Security Number of both student and parent applicants.

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 to make sure that the student has remaining eligibility under the maximum loan limits. (See the discussion of annual and aggregate loan limits in *Volume 3, Chapter 4*.) For a PLUS Loan, don't certify the application until you have obtained the dependent 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 (see "Packaging," *Volume 3, Chapter 6*).
- the student's cost of attendance, or
- the borrower's maximum borrowing limit (as discussed in *Volume 3, Chapter 4*)

Requesting EFT or master check from lender

Based on 34 CFR 668.167

Stafford: A school may not request a lender to provide it with Stafford loan funds earlier than--

- 27 days after the first day of classes of the first payment period for a 1st-year, 1st-time Stafford borrower, or
- 13 days before the 1st day of classes for any subsequent payment period for a 1st-year, 1st-time Stafford Loan Program borrower or for any payment period for all other Stafford borrowers.

PLUS: A school may not request a lender to provide it with PLUS loan funds earlier than 13 days before the first day of classes for any payment period.

Additional Unsubsidized Stafford

Dependent students whose parents are unable to borrow PLUS loans due to adverse credit or other exceptional circumstances may receive additional unsubsidized Stafford loan amounts at the same level as independent undergraduate students. The increased loan amounts do not substitute entirely for the amount a parent may borrow under the Plus program, which may be up to the difference between COA and EFA. As a result, you should examine the parent's ability to borrow a PLUS loan using an endorser who does not have an adverse credit history before certifying or originating additional unsubsidized loan amounts for the dependent student.

Before certifying or originating a loan for increased loan amounts, you must document the basis of the dependent student's eligibility. Some basic guidelines for making this determination include the following:

- The parent's unwillingness to borrow a PLUS does not make the dependent student eligible.
- The aid administrator's belief that a parent should not borrow a PLUS does not make the dependent student eligible.
- Only one parent must apply for a PLUS and be denied based on adverse credit. However, if both parents apply independently and one is approved and the other denied, the dependent student is not eligible for the increased loan amounts.
- The parent's denial of a PLUS loan based on adverse credit in one year does not support the dependent's eligibility in subsequent years.
- The dependent student may become eligible at any time during an academic year if a parent has first been approved and then later denied a PLUS based on a subsequent application. Under these circumstances, any previous PLUS funds received during the same period of enrollment are treated as estimated financial assistance in determining the student's remaining eligibility for additional unsubsidized loan amounts.

The dependent student may also be eligible for increased unsubsidized loan amounts if you determine and document that other exceptional circumstances exist that will prevent a parent from borrowing a PLUS loan. The regulations provide examples, but not an exhaustive list, of the exceptional circumstances that might be used to document the dependent student's eligibility:

- The parent is incarcerated and therefore ineligible to borrow.
- The parent's whereabouts are unknown.
- The parent's income is limited to public assistance or disability benefits and,
 - in the DL Program, you have examined the family financial information and documented the parent's likely inability to repay the PLUS loan due to an existing debt burden or the parent's expected income-to-debt ratio, or
 - in the FFEL Program, you have evidence that a lender that makes loans to students and parents of students at your school has denied a PLUS loan or will not make a PLUS loan to a parent under its lending policy due to the parent's existing debt burden, income-to-debt ratio, likely inability to repay, or other credit standards or factors the lender has elected to adopt as provided for under the regulations.

If a dependent student is determined to be eligible for additional unsubsidized loan amounts under exceptional circumstances, you must re-examine and document that these exceptional circumstances continue to apply before certifying or originating additional unsubsidized loan amounts for the dependent in a subsequent year.

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

Requesting check from lender requiring endorsement of the borrower

Based on 34 CFR 668.167

Stafford: A school may not request a lender to provide it with Stafford loan funds earlier than:

→ The first day of classes of the first payment period for a 1st-year, 1st-time Stafford borrower or

→ 30 days before the first day of classes for any subsequent payment period for a 1st-year, 1st-time Stafford borrower or for any payment period for all other Stafford borrowers

PLUS: A school may not request a lender to provide it with PLUS loan funds earlier than 30 days before the first day of classes for any payment period.

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 schools may contract with a guaranty agency or a consultant for assistance.) Schools that certify loans for ineligible students, or for loan amounts that exceed loan limits or the student's need, are subject to administrative actions such as a fine, limitation, suspension, and termination, as well as liabilities such as repayment to the government of interest and special allowance costs it has paid on the ineligible loans.

Submission of award & disbursement data (Direct Loans)

The COD process in Direct Loans includes the steps that a school would take to certify a loan in FFEL—in particular, scheduling 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 COD. The Direct Loan Program provides specific instructions for drawing down funds, so that information will not be duplicated here. We'll discuss FSA disbursement procedures in Chapter 2.

Scheduling disbursements with an FFEL lender

The rules for when loan payments can be disbursed to students are discussed in Chapter 2 of this volume. Once the anticipated dates of the disbursement to the student have been established, you can specify to the lender the dates on which you need to receive the loan funds. You may set an earlier "disbursement date" for the lender as

part of the school certification of the loan, so that you receive the loan funds in advance of the date that you expect to disburse funds to the student. (In the certification process, the term “disbursement” usually refers to the transfer of funds from the lender to the school, but for purposes of the *Handbook*, we use the term when referring to the school’s payment of funds to the student.)

In keeping with the standard 3-day turnaround time for payment of FSA funds to the student, the Cash Management regulations stipulate that a school cannot ask the lender to provide the Stafford or PLUS loan funds via EFT or master check any sooner than 3 days before the earliest date that it is allowed to pay the funds to the student. If you are requesting a check that requires the endorsement of the borrower, you may not ask the lender to provide the check any sooner than 30 days before it could be disbursed. (See sidebar.)

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 an eligible foreign 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.

An FFEL 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.

Once guaranty agency approval is obtained and the lender has determined that it has an active MPN for the borrower, the lender will send Stafford loan funds to your school in the appropriate amount for each disbursement to the student or parent. At the request of the borrower, 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.

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 COD and receives a response from COD.

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 COD.)

First-time borrowers must complete entrance counseling before payment can be made. (*See Volume 2, Chapter 6*)

Disbursement 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 Chapter 2 of this Volume*)

✧ Making Subsequent Loans.

If the MPN is used as a multi-year note, 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 MPN is not used as a multi-year note, the borrower completes a new MPN for each subsequent loan.

Copies of the Master Promissory Note are provided by lenders, guarantors or the COD center to borrowers and schools. For your reference, sample copies of the MPN and related materials are available on-line :

FFEL Stafford Loan MPN <http://ifap.ed.gov/dpclatters/GEN0207.html>

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