CONTENTS

CHAPTER 10
FEDERAL FAMILY EDUCATION LOAN PROGRAM

INTRODUCTION 1

SECTION 1: BORROWER AND INSTITUTIONAL ELIGIBILITY 3
Student Eligibility Criteria 3
Financial Need 4
Eligibility Criteria Specific to Parent Borrowers 7
Lender of Last Resort 8
Institutional Eligibility 8

SECTION 2: MAKING LOANS 11
The Loan Application 11
Determining the Loan period 13
Certifying a Loan Application 15
Annual Loan Limits 18
Prorated Annual Loan Limits—Subsidized and Unsubsidized Stafford Loans 23
Type of Academic Year and Frequency of Annual Loan Limits 26
Aggregate Loan Limits 29
Increased Loan Limits for Health Education Assistance Loan (HEAL) Students 30

SECTION 3: PAYMENT TO THE BORROWER 31
Definitions of Delivery and Disbursement 31
Financial Aid History and NSLDS 32
Methods of Disbursing and Delivering Loan Funds 32
Disbursement and Delivery Requirements 33
Overawards 37
Credit Balances 38
Late Disbursement 38
Borrower Ineligibility and Return of Funds to Lender 39
Reimbursement Payment Method 41

SECTION 4: REPAYMENT 43
Grace Periods 43
Interest Rates 44
Additional Costs of Borrowing 47
Repayment of Federal Stafford Loans 48
Repayment of Federal PLUS Loans 52
Capitalization of Interest 53
Repayment Disclosure Statement and Billing 53

SECTION 5: DEFERMENT & FORBEARANCE 55
In-School Deferment 56
Unemployment Deferment 56
Economic Hardship Deferment 57
Additional PLUS Loan Deferment 57
Deferment Eligibility Issues 58
Deferment Provision Chart Footnotes 59
Optional forbearance 62
Mandatory Forbearance 64
Administrative Forbearance 65
Mandatory Administrative Forbearance 66
Interest Accruing During Deferment and Forbearance 66

SECTION 6: LOAN DISCHARGE 67
Death and Permanent Disability Discharges 67
Bankruptcy Discharge 67
Other loan cancellation provisions 67
Effect on a Borrower’s SFA Eligibility 68
Payments Made after Discharge 70
Repayment by the U.S. Department of Defense 70

SECTION 7: DELINQUENCY AND DEFAULT 71
Consequences of Default 71
Reinstatement of Eligibility after Default 74
Loan Rehabilitation 74

SECTION 8: CONSOLIDATION LOANS 77
Federal Consolidation Loans 77
Applying for a Consolidation Loan 78
Borrower Eligibility for a Federal Consolidation Loan 78
Repayment and Deferment 80

SECTION 9: COUNSELING STUDENTS 83
Entrance Counseling 83
Exit Counseling 88

SECTION 10: DEFAULT REDUCTION MEASURES 93
Loans Included in a School’s Cohort Default Rates 93
Calculating Cohort Default Rates 94
Changes Occurring after an Official Cohort Default Rate Calculation 97
Draft Cohort Default Rates 98
Change in Status of a School 99
Consequences Associated with High Official Cohort Default Rates 100
Appeal Procedures 102
General Requirements to Reduce Defaults 105

SECTION 11: ADDITIONAL SCHOOL REQUIREMENTS 109
Refunds 109
Exchange of Information Requirements 110
Recordkeeping, Audits, and Reports 111
Audit Requirements 113
Program Participation Agreement Requirements 114
Prohibited School and Lender Activity 115

APPENDIX: GUARANTY AGENCY DIRECTORY 117

Introduction

Part B of Title IV of the Higher Education Act of 1965 (HEA), as amended, created the guaranteed student loan programs. The Higher Education Amendments of 1992 (P.L. 102-325) reauthorized the HEA and renamed the guaranteed student loan programs the Federal Family Education Loan (FFEL) Program, which now comprises Federal Stafford Loans (formerly Guaranteed Student Loans), Federal PLUS Loans, and Federal Consolidation Loans. The FFEL Program makes these long-term loans available to students attending institutions of higher education; vocational, technical, business, and trade schools; and some foreign schools.

State or private nonprofit guaranty agencies insure FFELs, and these agencies are reimbursed by the federal government for all or part of the insurance claims they pay to lenders. The federal guaranty on a FFEL replaces the security (the collateral) usually required for a long-term consumer loan.

Note that although all FFEL-related guaranty agency procedures and policies must accord with the federal requirements discussed in this chapter, **individual guaranty agencies may have additional procedures and policies**. To obtain specific information about a guaranty agency's policies and procedures, contact that agency. Appendix A of this chapter contains a list of guaranty agencies and their addresses and telephone numbers.

The different types of FFELs serve different purposes:

◊ Both undergraduate and graduate students can receive Stafford Loans.

◊ Parents of dependent students can receive PLUS Loans.

◊ Federal Consolidation Loans allow a borrower to combine several loans into one to facilitate repayment. The loans may be consolidated if the borrower meets certain conditions. (These conditions and the types of loans that may be consolidated are discussed in Section 5.)

Specific information on how cohort default rates for prior fiscal years are used for eligibility determinations following a change in status for a school was not available at the time this Handbook went to print. The Department will issue further guidance on this topic at a later date in the form of Dear Colleague Letters. When issued, this up-to-date information will also be available on the SFA BBS.

section 1

Borrower and Institutional Eligibility

In general, a student must be enrolled at least half time as a regular student in an eligible program and must meet the school's satisfactory academic progress standards to be eligible for a Federal Stafford or to benefit from a Federal PLUS Loan (that is, for his or her parents to receive a PLUS Loan). Chapter 2 covers in detail the student eligibility requirements that are common to all Student Financial Assistance (SFA) programs, and Chapter 3 covers in detail the institutional eligibility requirements of the SFA programs. Only those borrower and institutional eligibility requirements that are specific to the Federal Family Education Loan (FFEL) Program are noted here.

STUDENT ELIGIBILITY CRITERIA

To receive a Stafford Loan or to benefit from a PLUS Loan, a student must meet the general eligibility criteria for all SFA programs (explained in Chapter 2).

There are three exceptions to the general SFA eligibility requirement that a student be enrolled or be accepted for enrollment in a degree or certificate program.

Coursework necessary to enroll in degree or certificate program

◊ 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 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. Loan limits are explained in the chart on page 10-22.

Coursework necessary to enroll in graduate or professional program

◊ 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.

The school that certifies a student’s loan application using this exception must document that the coursework is needed before the student can be admitted into a degree or certificate program.

Non-degree teacher certification programs

◊ A student enrolled at least half time in a program required by a state for teacher certification or recertification 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. As noted previously, such students may borrow at the fifth-year undergraduate loan level.

Medical internships and residencies

A student is **ineligible** to receive a Stafford Loan or a Federal Perkins Loan (see Chapter 6) 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.

Need for subsidized Federal Stafford Loan = Cost of Attendance - Expected Family Contribution - Estimated Financial Assistance

As stated in Chapter 2, a student who owes a refund on an SFA grant or is in default on an SFA loan is ineligible for additional SFA funds. Note that the parents of such a student may not receive a PLUS Loan for the student’s benefit.

FINANCIAL NEED

To qualify for a subsidized[1] 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 his or her subsidized Stafford Loan limit may apply for an unsubsidized Stafford Loan to cover the difference between his or her loan limit and the subsidized amount for which he or she is eligible. Basically, a student’s need for a subsidized Federal Stafford Loan is his or her cost of attendance (COA) minus his or her Expected Family Contribution (EFC) minus his or her estimated financial assistance (EFA).

The student’s EFA is the amount of other aid he or she will receive for the enrollment period covered by the loan. See Chapter 2, Section 2 for more information on determining a student’s financial need. Section 2 of this chapter provides information on loan limits.

[1] A subsidized loan qualifies for a federal interest subsidy during in-school status, grace periods, and authorized deferment periods. An unsubsidized loan does not qualify for a federal interest subsidy during any period.

An unsubsidized Stafford Loan is not need-based, but it cannot exceed the student's cost of attendance less the total of EFA, which includes the borrower's subsidized Stafford Loan eligibility.

A student does not have to demonstrate financial need to benefit from a PLUS Loan his or her parents borrow.

Because an independent student's parents may not obtain a PLUS Loan on the student's behalf, an independent student has unsubsidized loan borrowing limits in addition to the subsidized limits. The student does not need to demonstrate financial need to receive this additional amount. See Chapter 2 for information on determining dependency.

If, due to circumstances such as an adverse credit history (see page 10-7), a dependent undergraduate student's parents are unable to borrow a PLUS Loan, the school may allow the student to obtain an unsubsidized Stafford Loan under the independent student borrowing limits. Again, the student does not need to demonstrate financial need to receive this additional amount.

As explained in Chapter 2, because students who are members of certain religious organizations are considered to have no financial need for SFA program purposes, such a student is not eligible for need-based SFA funds. He or she may, however, be eligible for an unsubsidized Stafford Loan or an unsubsidized Consolidation Loan, or, if dependent, he or she may be eligible to benefit from a PLUS Loan. (PLUS Loans are also unsubsidized.)

A school that participates in the Federal Pell Grant Program 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, the school 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, a school cannot certify an unsubsidized Stafford Loan for a student without first determining his or her need for a subsidized Stafford Loan. If a student has need for a subsidized Stafford Loan of less than $200, a school can choose to certify only an unsubsidized Stafford Loan that includes the amount of the student's need, rather than certifying a subsidized loan of less than $200 and an unsubsidized loan for the remainder of the student's borrowing limit. Details on certifying loans are provided in Section 2 of this chapter.

No need determination necessary for PLUS Loans

Generally, a school can certify a PLUS Loan for a parent **without** first determining the benefitting student's Pell Grant and subsidized Stafford Loan eligibility. In fact, calculation of a student's EFC is not required for making a PLUS Loan. There is one exception: A school cannot make a late disbursement of a PLUS Loan unless the school received a *Student Aid Report* (SAR) or an *Institutional Student Information Record* (ISIR) for the benefitting 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.

Exception—SAR or ISIR necessary for PLUS Loan late disbursement—34CFR 668.164(g)(2)(i)

Offsetting a Student's Expected Family Contribution (EFC)

Loans made on behalf of a student under PLUS, unsubsidized Stafford Loans, loans made by a school to assist the student, and state-sponsored and private education loans all can be used to offset (substitute for) part or all of the student's EFC for Stafford Loans and other need-based SFA rograms. The following example shows how nonfederal aid may be substituted for the EFC in determining a student's financial aid package.

Gordon, a student at Bonner's Mill College, has a COA of $7,000 and an EFC of $1,500. Gordon's financial aid includes a Federal Pell Grant of $1,500, an FSEOG of $500, a private scholarship of $500, and a state-sponsored loan of $2,000. Subtracting his EFC (1,500) and his EFA ($4,500) from his COA ($7,000) would appear to leave him with unmet need of $1,000.

COA		**EFC**		**EFA**		**Unmet Need**
$7,000	**-**	**$1,500**	**-**	**$4,500**	**=**	**$1,000**

The EFC is replaced in the calculation by the EFC offset. The $1,500 of the state-sponsored loan that is used to offset the EFC is no longer considered part of the EFA. Thus, the EFA is reduced to $3,000, and Bonner's Mill may approve Gordon's subsidized Stafford Loan application for $2,500.

COA		**EFC Offset**		**Remaining EFA**		**Unmet Need**
$7,000	**-**	**$1,500**	**-**	**$3,000**	**=**	**$2,500**

Note that because the $2,000 state loan is greater than the EFC, the remaining $500 of the state loan cannot be counted towards the EFC and must remain part of the EFA. It is very important to note that although the EFC is being offset by a state loan, the EFC itself does not change. The offset causes a reduction in EFA, not in the EFC. Therefore, the student's Pell Grant eligibility is not affected by this offset. See Chapter 2 for more information on EFA and financial need.

The financial aid administrator may want to establish need for the subsidized Stafford Loan before other loans are figured into the aid package—and the financial aid administrator must do so in the case of unsubsidized Stafford and PLUS loans—to enable the student to receive the maximum subsidized Stafford Loan amount.

ELIGIBILITY CRITERIA SPECIFIC TO PARENT BORROWERS

Definition of parent for PLUS Loan purposes

For the purpose of determining PLUS Loan eligibility, a parent is a student's natural mother or father, adoptive parent, legal guardian, or the spouse of a parent who has remarried, if that spouse's income and assets would be taken into account when calculating the dependent student's EFC.

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 must meet the same citizenship and residency requirements as a student. Also, a parent who owes a refund on an SFA grant or is in default on an SFA loan is ineligible for a PLUS Loan. (Note that the parent's ineligibility for a PLUS Loan does not affect the student's eligibility for SFA funds.) See Chapter 2 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.

Adverse credit history

A parent with an adverse credit history is prohibited from obtaining a PLUS Loan. A lender must obtain a credit report on each applicant for a loan from at least one national credit bureau. Unless the lender determines that extenuating circumstances exist, the lender must consider the applicant to have an adverse credit history if

- ◊ he or she is 90 days or more delinquent on the 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. However, a parent cannot be rejected for a PLUS Loan on the basis of having no credit history. The absence of a credit history **cannot** be construed as an adverse credit history.

The Bankruptcy Reform Act of 1994 (enacted October 22, 1994) prohibits a lender from discriminating, on the basis of past bankruptcy filing or discharge only, against a borrower applying for a student loan. However, past bankruptcy can be included as a factor in determining the future creditworthiness of a loan applicant. These provisions are also described in Section 6 of this chapter.

A parent with an adverse credit history may 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 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.

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 a 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.

INSTITUTIONAL ELIGIBILITY

In order to participate in the FFEL Program, a school must meet the SFA Program eligibility criteria discussed in Chapter 3. Only institutional eligibility issued specific to the FFEL Program are discussed here.

Only a school accredited as an institution of higher education offering a graduate-level program may certify FFELs at the graduate level for students unconditionally accepted into a graduate or professional program. A school offering programs **exclusively** for study by correspondence is not eligible to participate in the FFEL Program.

If a school is notified that it has lost its eligibility to participate in the FFEL Program and the school does not intend to appeal the decision, it must immediately inform all current and **prospective** students of its loss of eligibility. The school must also explain that it can no longer certify FFELs for students. If the school appeals its loss of eligibility within the required time frame, the school may continue certifying FFELs during the appeal process. Once a final decision on the appeal is made, the school must take the appropriate action described in the Department's final appeal decision letter. (See Section 9 for more information about the appeal process.)

If a school loses eligibility or decides not to participate in FFEL Program, reinsurance of loans previously disbursed will not be affected, and interest subsidy will continue as long as the student maintains his or her required enrollment status. The student's grace period and eligibility for in-school status and in-school deferment also will not be affected by a school's loss of eligibility. If a school has delivered the first disbursement of a loan to a student before the loss of eligibility, the school may deliver the remaining disbursements. However, if a school loses eligibility before it delivers any loan proceeds to the student, the school is not permitted to deliver the loan proceeds to the student. (See Section 10 for information about how excessive default rates affect school eligibility.)

Foreign medical schools—34CFR 600.56(c)

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

If a school plans to withdraw from participation in the FFEL Program, it must provide both the appropriate guaranty agency or agencies and the Department with written notification of its decision. Once the effective date of withdrawal has been established, the school is prohibited from delivering to a student any loan proceeds received from a lender and must return the loan proceeds to the lender within 30 days. To find out more about the procedures required for withdrawal from the FFEL Program, call 202/708-4906.

Note that if the first disbursement of a Federal Stafford Loan was delivered to the student or credited to the student's account prior to the school's loss of eligibility or withdrawal from participation, the school may deliver subsequent disbursements of that Federal Stafford Loan to satisfy any unpaid commitment made to a student for the period of enrollment for which the Stafford Loan was made.

If a school has never participated in the SFA Programs but wants to be considered an eligible school for deferment purposes only, the school must prove that it meets the Department's definition of an eligible school before the school may certify borrower deferment forms. To find out more about eligibility for deferment purposes, write to the following address:

U.S. Department of Education
Initial Participation Branch, Room 3915
600 Independence Avenue, SW
Washington, D.C. 20202-5244

Applications to request deferment approval should be sent to:

U.S. Department of Education
Institutional Participation and Oversight Service
P.O. Box 44805
L'Enfant Plaza Station
Washington, D.C. 20202-4805

section 2 Making Loans

THE LOAN APPLICATION

To receive a Federal Stafford Loan, a student must complete a *Free Application for Federal Student Aid* (FAFSA) and a loan application. A student may obtain an application from a guaranty agency, lender, or school that participates in the Federal Family Education Loan (FFEL) Program.

To receive a Federal PLUS Loan, a parent must complete a PLUS Loan application. The student benefitting from the PLUS Loan must complete a portion of the application, but is not required to complete a FAFSA unless applying for additional aid under the Student Financial Assistance (SFA) programs, unless a late disbursement will be made (see pages 10-5 and 10-6).

There is a common loan application/promissory note that the U.S. Department of Education has approved. A student must use this form to apply for a subsidized and/or unsubsidized Federal Stafford Loan and a common loan application/promissory note that a parent must use to apply for a PLUS Loan.

Applications/promissory notes that a school receives may or may not have a guaranty agency's name in the upper right corner. Even if a guaranty agency's name appears in the upper right corner of the form the student uses, another guaranty agency may process the form and insure the loan.

If a guaranty agency uses the common form as part of a renewal application process, borrower information and a prior lender's name and code number may be preprinted on the form.

A guaranty agency may use an electronic application process. If the guarantor chooses to do so, it must require that the borrower complete the common loan application data elements that the agency did not receive from the FAFSA. The guaranty agency must also provide the borrower with a promissory note and notification of the borrower's rights and responsibilities.

Schools should direct any questions about the common loan application/ promissory note or electronic application processing to the guaranty agency or particular agencies with which it works.

If a student is unable to find a lender willing to make a Stafford Loan, he or she should contact the guaranty agency that serves his or her state of residence for assistance in finding a lender of last resort (LLR). See page 10-8 for more information about the LLR.

A Stafford Loan application comprises three sections: one to be filled out by the borrower, one to be filled out by the school, and one to be filled out by the lender. A PLUS Loan application has these three sections and a section that requires the student who is benefitting from the loan to provide information.

The Borrower's Portion of the Application

Some of the information a borrower must provide are his or her name, address, date of birth, Social Security Number, and driver's license number, as well as two personal references. The borrower may provide a lender's name if he or she has a preference because the law gives a borrower a choice of a lender. The borrower must read and sign the promissory note. If the borrower previously borrowed or the agency uses electronic application processing, some of this information may be preprinted on the application.

The School's Portion of the Application

School determines eligibility

The school must provide the student's cost of attendance (COA), Expected Family Contribution (EFC), and estimated financial assistance (EFA). The school must also determine the loan period. The EFC appears on the Student Aid Report (SAR) that the student receives after completing and submitting a FAFSA for processing. Determining a student's COA, EFA, loan period, and recommended loan amount based on annual and aggregate limits is the financial aid administrator's responsibility. The financial aid administrator is also expected to confirm the student's dependency status and Social Security Number. **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.)

Chapter 2 provides information on the EFC and on determining a student's dependency status and COA.

The Lender’s Portion of the Application

The lender reviews the Stafford Loan or PLUS Loan application and completes the lender portion of the loan application.

A lender is prohibited from discriminating against an applicant on the basis of race, national origin, religion, sex, marital status, age, or handicapped 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, 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.

A lender may not approve a loan for more than the least of the following amounts:

◊ the amount the borrower requests

◊ the student’s unmet financial need (in the case of a subsidized loan)

◊ the student’s COA

◊ the borrower’s maximum borrowing limit (explained later in this section)

The lender must receive approval of the guaranty agency for an FFEL in order for the lender to disburse the loan and, if applicable, be eligible for payment of federal interest benefits. A lender or guaranty agency may not make or guarantee a Stafford Loan or PLUS Loan until it reviews its records and finds no indication that the applicant (and the student, if the loan is a PLUS) is in default on an SFA loan made for attendance at **any** school or owes a refund on an SFA grant received at **any** school. Once guaranty agency approval is obtained, the lender will send the Stafford Loan proceeds (or the first disbursement of the proceeds) to the school’s financial aid office for delivery to the student; or the lender will send the proceeds directly to the student if he or she is enrolled in a foreign school. For a PLUS, loan proceeds 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. See Section 3 for more information on loan disbursement.

DETERMINING THE LOAN PERIOD

The period of enrollment or loan period to which the application refers is the period for which the FFEL is intended. This period must coincide with one or more of a school’s academic terms (such as academic year, semester, trimester, quarter or nonstandard term) for schools that use terms. Loan periods for schools that do not use terms are generally based on the length of the program or academic year. The COA, EFA, and EFC provided on the application must relate to the loan period.

The **minimum** period for which a school that measures academic progress in credit hours and uses terms may certify a loan is a single academic term. For a clock-hour school or a credit-hour school that does not use terms, the **minimum** period for which the school may certify a loan is

◊ the shortest of the following three periods

1) the academic year as defined by the school in accordance with the General Provisions regulations

2) the length of the student's program at the school

3) the remaining portion of the student's program that exceeds the school's academic year.

The **maximum** loan period is generally the school's academic year but cannot exceed a 12-month period.

Sessions overlapping award years

If a school session overlaps two award years (that is, it begins before July 1 and ends after July 1), the financial aid administrator has the discretion to decide to which of the two award years the loan period will apply. This is the **only** case in which a financial aid administrator has such discretion. If a student in a session that overlaps two award years is also receiving campus-based aid (a Federal Perkins Loan, a Federal Supplemental Educational Opportunity Grant [FSEOG], or Federal Work-Study [FWS]), both the FFEL and the campus-based aid must apply to the same award year.

If a student's loan is certified after the beginning of an enrollment period, the FFEL may retroactively cover the entire period of enrollment, as long as that period of enrollment does not exceed the maximum loan period allowed. For example, suppose a school's academic term begins on September 6 and runs through December 20. A student who is admitted to a program contingent on the receipt of an acceptable academic transcript from a previous school begins the academic term on September 6. The school receives the transcript on October 15. The school may certify the loan for the full period of enrollment (September 6 through December 20). If the student plans on enrolling for the subsequent term and that term is part of the same academic year as the first term, the school may certify the loan to cover the period from September 6 to the end of the second term.

If a school charges tuition and fees to a student at the beginning of a program that is longer than an academic year, the COA for the FFEL Program should include the full amount of the tuition and fees charged in the **period of enrollment** in which the loan is made. For example, suppose a school with a 1,350-clock-hour program defines its academic year as 900 clock hours and charges each student the full $3,000 in tuition and fees at the beginning of the program. An enrolling student may receive two Federal Stafford Loans during the program (provided all eligibility criteria are met) because the program exceeds one academic year. The tuition and fees component of the COA for the first Stafford Loan is $3,000; there is no tuition and fees component in the COA for the second Stafford Loan. The second Stafford Loan must be prorated because the remainder of the program (450 hours) is shorter than the school's academic year. See page 10-23 for more information on loan proration.

Charging tuition and fees at the start of a program longer than an academic year

The amount of a student's subsidized Stafford Loan depends on his or her financial need and borrowing limit. The amount of an unsubsidized Stafford Loan depends on the student's COA, EFA, and borrowing limits. See Section 1 for information on financial need. Loan limits are discussed later in this section. Chapter 2 provides detailed information on COA and EFA. The amount of a parent's PLUS Loan depends on the benefitting student's COA. See page 10-21 for further information.

CERTIFYING A LOAN APPLICATION

Getting previous financial aid information

During the loan application process, a financial aid administrator must request a financial aid transcript (FAT) from each eligible school a student previously attended or must use the National Student Loan Data System (NSLDS) to obtain the student's previous financial aid information. It is the financial aid administrator's responsibility to determine whether a student previously attended an eligible school and to obtain the proper information. The financial aid administrator may certify a loan application (but is not required to do so) before receipt of any or all of a student's FATs but must not deliver loan proceeds to the student until the school receives an FAT from each of the student's previous eligible schools. In the case of a PLUS Loan, the financial aid administrator must not certify the application until the school receives an FAT from each of the benefitting student's previous eligible schools.

School refusal to certify

A financial aid administrator may refuse to certify an otherwise eligible FFEL borrower's loan application if the reason for the refusal is documented and provided in writing to the student. Similarly, the financial aid administrator may certify a loan for an amount less than that for which the student would otherwise be eligible if reasons for doing so are documented and explained to the student in writing.

Before certifying a Stafford Loan, the financial aid administrator must

◊ certify that the loan disbursement schedule provided with the application meets the disbursement requirements for Stafford Loans (see Section 9 for more information) and

◊ 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.

A school may not certify a Stafford Loan or PLUS Loan application until the following requirements are also met:

◊ The school has determined the student's dependency status, enrollment status, and satisfactory academic progress.

◊ A student (or both the student and parent in the case of a PLUS Loan) certifies that he or she is not in default on any SFA loan and does not owe a refund on any SFA grant or scholarship.

◊ The school determines the student's Pell Grant eligibility (for Stafford Loan applicants), and if eligible, the student has applied for the grant.

◊ The school reviews its academic and financial aid records, verifies the information that the borrower (and the student, in the case of a PLUS Loan) certified concerning previous loans or grants, and determines that the total loan or loans certified for the period of enrollment will not cause the borrower to exceed annual or aggregate loan limits. The school must also ensure that

  - for subsidized Stafford Loans, the loan amount or amounts will not exceed the student's financial need as determined by an approved need analysis system and

  - for unsubsidized Stafford Loans or PLUS loans, the loan amount or amounts will not exceed the difference between the student's COA and his or her EFA.

A financial aid administrator should be aware of the responsibility incurred in certifying a loan application. If the financial aid administrator certifies a loan for an ineligible student, the school will be responsible for purchasing the loan and for reimbursing the Department for all interest and special allowance paid on behalf of the borrower.

A school may not certify a loan for more than the least of the following amounts:

◊ the amount the borrower requests

◊ the student's unmet financial need (in the case of a subsidized loan)

◊ the student's COA

◊ the borrower's maximum borrowing limit (explained later in this section)

If the financial aid administrator certifies that a student is eligible for a loan larger than that to which he or she is entitled, the school must reimburse the lender for the difference between the loan amount certified and the loan amount to which the student is entitled. The school must also reimburse the Department for the excess interest and special allowance payments made on the incorrect loan amount.

Common certification errors

Some of the most common errors schools make are

◊ certifying a loan for more than the amount allowed;

◊ certifying a loan to a student not making satisfactory academic progress (see Chapter 2);

◊ certifying a loan to a student in an ineligible program or attending an ineligible branch campus;

◊ certifying a loan to an ineligible student, such as a foreign student on a student visa (see Chapter 2); and

◊ certifying more than one application for the same student for the same loan period (resulting in a loan exceeding the student's need and annual loan limit).

If a subsidized Stafford Loan applicant has been selected for verification, a school may refuse to certify the Stafford Loan application until verification has been completed, or the school may certify the application, if there is no information which conflicts with that provided by the applicant. A school that chooses to certify the application may not deliver the loan proceeds to the borrower until verification has been completed.

After completing the school's portion of an application, a financial aid administrator must certify that the information he or she provided is correct and that the information the student and/or parent provided is accurate to the best of the financial aid administrator's knowledge. The school must keep one copy of the application on file. The student (or the school on behalf of the student) sends the other copies of the application to the lender or guaranty agency along with the promissory note, if included. The date of loan certification is the date the school official signs the loan application and submits it to the lender or agency—unless the school uses another means of documenting the date it submits the application.

Preventing Overawards When Aid Will Exceed Need

An overaward is an award in excess of need that occurs when the financial aid administrator learns of additional financial assistance (such as a grant or scholarship) available to the student for the same period of enrollment **after** a school determines EFA and receives Stafford Loan funds. See page 10-37 for more information on handling potential Stafford Loan overawards that are identified after FFEL funds are received.

If, after the loan has been certified but before the school receives the loan proceeds, the school becomes aware of additional financial assistance that could result in the student's aid package exceeding his or her need, the school must eliminate the overaward. The school must do this by requesting that the lender cancel or reduce the Stafford Loan or by canceling or reducing aid over which it has control, such as institutional or campus-based aid, instead of (or in addition to) canceling or reducing the Stafford Loan amount. A $300 overaward tolerance is permitted if the student's financial aid package includes a Stafford Loan plus Federal Work-Study (FWS). If there is no FWS in the student's financial aid package, no tolerance is allowed under FFEL. See Chapter 7, Section 2 for more information on this tolerance.

ANNUAL LOAN LIMITS

An undergraduate student who has not yet completed the first year of an undergraduate program may borrow

◊ up to $2,625 per academic year of study for a program that is at least an academic year in length;

◊ up to $1,750 per academic year of study for a program that is at least two-thirds of an academic year but less than a full year;

◊ up to $875 per academic year of study for a program that is at least one-third but less than two-thirds of an academic year.

A student may not receive a Stafford Loan for a program that is less than one-third of an academic year in length.

A student who has completed the first year of study but has not completed the remainder of the program may borrow up to $3,500 per academic year of study for a program that is at least an academic year in length.

A student who has completed the first and second years of study but has not completed the remainder of the program may borrow up to $5,500 per academic year of study for a program that is at least an academic year in length.

An undergraduate student who has an associate or baccalaureate degree that is required for admission into his or her current program may borrow up to $5,500 per academic year of study for a program that is at least an academic year in length.

A loan for a borrower at any level of study must be prorated, as discussed on page 10-23, when

◊ a program is less than an academic year in length or

◊ a program is more than an academic year and the remaining portion of the program is less than an academic year in length.

These loan limits represent the total of all subsidized and unsubsidized Stafford Loans a dependent undergraduate student may borrow at each level of study. A dependent undergraduate student who takes out both subsidized and unsubsidized Stafford Loans must not exceed the annual and aggregate limits allowed under the Stafford Loan Program. An unsubsidized Stafford Loan amount, subject to the loan limits described above, is the difference between the borrower's COA for the loan period and the borrower's EFA (including any subsidized Stafford Loan amount he or she will receive). This example shows how to determine the amount of an unsubsidized Stafford Loan for a dependent undergraduate student.

Gary, a first-year dependent student at Reid State U., applies for a Stafford Loan to attend a term beginning in September 1998. His COA is $8,000, and, based on his need, he qualifies for a subsidized Stafford Loan of $1,000. He may also apply for an unsubsidized Stafford Loan of $1,625, which is the difference between the maximum Stafford Loan allowed him ($2,625) and the amount of his subsidized Stafford Loan. (Gary's parents may borrow a PLUS Loan to cover the remainder of his COA.)

Following are loan limits for unsubsidized Stafford Loans made to independent undergraduate students (or to dependent students whose parents are unable to borrow PLUS Loans due to exceptional circumstances such as adverse credit histories). **The following unsubsidized Stafford Loan limits may be added to the borrower's subsidized Stafford Loan limits**.

- ◊ A student who has not completed the first two years of undergraduate study may borrow
    - up to $4,000 for a program of study at least an academic year in length;
    - up to $2,500 for a program at least two-thirds of an academic year but less than a full year;
    - up to $1,500 for a program at least one-third of an academic year but less than two-thirds of an academic year.
- ◊ A student who has completed the first and second years but who has not completed the remainder of the program may borrow up to $5,000 for a program of study at least an academic year in length. The loan must be prorated for programs less than an academic year in length or for programs more than an academic year when the remaining portion of the program in excess of an academic year is less than an academic year in length.
- ◊ An undergraduate student who has an associate or baccalaureate degree that is required for admission into his or her current program may borrow up to $5,000 per academic year of study for a program that is at least an academic year in length.

Here is an example of how to determine the amount of an unsubsidized Stafford Loan for an independent undergraduate student.

> Jennifer is a first-year independent undergraduate student at Riverfront Community U. Her COA is $7,000. Jennifer qualifies for a subsidized Stafford Loan of $1,500. She may apply for an unsubsidized Stafford Loan of $5,125 ($1,125 remaining under her initial Stafford Loan limit, plus a $4,000 unsubsidized Stafford Loan). Her total loan limit for her subsidized Stafford Loan and her unsubsidized Stafford Loan is $6,625.

A student's academic year level for loan limit purposes is set according to the school's standards for the time normally required to complete a given grade level. However, if the school determines a program normally can be completed in two years of full-time study, a student in that program can never receive more than the second-year annual loan limit of $3,500 in any given year, no matter how long it takes the student to finish.

The subsidized loan limit for a graduate or professional student is $8,500 per academic year. The additional unsubsidized loan limit for graduate or professional students is $10,000 per academic year.

Teacher certification or recertification programs

Students enrolled in teacher certification or recertification programs are considered the same as fifth-year undergraduate students for the purpose of determining annual loan limits. See the chart on page 10-22 for more information on annual loan limits.

A student enrolled at least half time on a non-degree seeking basis for a single consecutive 12-month period taking coursework that the school has determined to be necessary for the student to enroll in an undergraduate, graduate, or professional program may borrow

◊ at the first-year undergraduate loan level to take the necessary undergraduate program prerequisite coursework or

◊ at the fifth-year undergraduate loan level to take the necessary graduate or professional program prerequisite coursework.

Federal PLUS Loans

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

Maximum Annual Loan Amounts Federal Stafford Loan Program and Federal Direct Stafford Loan Program

Borrower's Academic Level	Dependent Student	Independent Student	
	Total Subsidized & Unsubsidized	Subsidized Limit	Unsubsidized Limit** *Less Subsidized Amounts Borrowed*
First Year Undergraduate Student			
• full academic year	$ 2,625	$ 2,625	$ 6,625
• 2/3 to less than full academic year	$ 1,750	$ 1,750	$ 4,250
• 1/3 to less than 2/3 academic year	$ 875	$ 875	$ 2,375
Second Year Undergraduate Student			
• full academic year	$ 3,500	$ 3,500	$ 7,500
• 2/3 to less than full academic year	prorated*	prorated*	$ 2,500 + prorated limit
• 1/3 to less than 2/3 academic year	prorated*	prorated*	$ 1,500 + prorated limit
Third Year and Beyond Undergraduate Student			
• one academic year	$ 5,500	$ 5,500	$10,500
• less than a full year	prorated*	prorated*	prorated*
Graduate/ Professional Student	N/A	$ 8,500	$18,500

Note that when determining the unsubsidized loan amount that a student may borrow, any subsidized loan amount the student is borrowing must be subtracted from the unsubsidized maximum. e.g., if a first-year independent student borrows a $2,000 subsidized loan, he or she is eligible to borrow an additional $4,625 unsubsidized loan. Subsidized and unsubsidized loans are available under the Federal Stafford and Direct Loan programs.

*Whenever the chart indicates that the amount is prorated, the amount that a student can borrow is determined by the length of the student's program in proportion to the school's definition of an academic year. Thus, the amount that a student can borrow when he or she is enrolled for less than a full academic year is prorated according to the portion of an academic year for which the loan is sought as expressed in the number of semester, trimester, quarter, or clock hours. See Chapter 10, Section 2.

**Dependent undergraduates can also receive these additional amounts if the financial aid administrator determines that the student's parents will not be able to borrow a Federal PLUS Loan or Federal Direct PLUS Loan on the student's behalf. The financial aid administrator makes this decision after reviewing the information received by the parent from a lender after the parent attempted to obtain a PLUS Loan. The aid administrator must document in the student's file the exceptional circumstances that would prevent the parents from borrowing a PLUS Loan. For example, if the parents receive only public assistance, the administrator could assume that they will not be able to repay a PLUS Loan. A parent's refusal to borrow a PLUS Loan is not considered to be an exceptional circumstance.

PRORATED ANNUAL LOAN LIMITS—SUBSIDIZED AND UNSUBSIDIZED STAFFORD LOANS

Proration applies only to undergraduates

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

Loans must be prorated when a student is enrolled

◊ in a program containing fewer weeks, clock hours, or credit hours than the statutory minimum academic year; or

◊ in a program that is longer than an academic year, but the final period of study is shorter than an academic year.[1]

There are two types of proration—**fixed** and **proportional**:

◊ **Fixed** prorated loan limits are set dollar amounts based on the length of a student's program (or final period of study) in relation to a full academic year.

◊ **Proportional** prorated loan limits are calculated amounts based on the ratio of the credit or clock hours in a final period of study to the credit or clock hours in the school's academic year.

Program less than AY—fixed proration

Schools use fixed proration when students are enrolled in programs containing fewer weeks, clock hours, or credit hours than the statutory minimum academic year. Chapter 3 contains extensive information about academic year requirements. Briefly, an academic year must contain **at least** 30 weeks of instructional time[2] **and** 24 semester or trimester hours, 36 quarter hours, or 900 clock hours. To determine the length of a student's program in relation to a full academic year, schools must compare two fractions: the number of clock or credit hours in the program divided by the number of hours in the academic year, and the number of weeks of instructional time in the program divided by the number of weeks in the academic year. The lesser of these fractions determines the relation of program length to academic year length and is used to calculate the prorated loan amount.

[1] Proration must also be done in certain cases where a program is exactly one academic year long: For example, a student withdraws from a one-year program and later, in a new academic year, completes the program (either re-enrolling at the original school or enrolling at another school). In this case, the student is enrolled in a final period of study that is shorter than an academic year.

[2] The Department may waive this requirement for some programs fewer than 30 weeks.

Fixed proration example

Hector, an independent student, has enrolled in a 650-clock hour, 28-week program. The school defines the academic year for the program as 900 clock hours and 30 weeks of instructional time. Because Hector's program is shorter than an academic year, his Stafford Loans must be prorated. The school compares the two fractions:

$$\frac{\text{650 clock hours in program}}{\text{900 clock hours in academic year}} \qquad \frac{\text{28 weeks instructional time in program}}{\text{30 weeks instructional time in academic year}}$$

$$650/900=.72 \qquad 28/30=.93$$

Of the two fractions, the smaller is 650/900 (.72); the school uses .72 as the length of Hector's program when determining the prorated loan amount. The program is less than a full year but greater than 2/3 (.66) of an academic year. Therefore, Hector may borrow up to $1,750 in combined subsidized and unsubsidized Stafford Loans (see the loan limits chart on page 10-22). Because he is an independent student, he may be eligible for an additional prorated unsubsidized Stafford Loan of up to $2,500.

Final period of study less than AY

Schools must prorate a student's loan if the final period of study is shorter than an academic year. A final period of study is one at the end of which a student will complete a program. At a **term-based credit hour** school (where the academic year is measured in semesters, trimesters, quarters, or other terms), a final period of study is considered shorter than an academic year if the final period consists of fewer terms than the school's scheduled academic year. At a **term-based clock hour** school (where the academic year is measured in semesters, trimesters, quarters, or other terms), a final period of study is considered shorter than an academic year if the final period consists of fewer terms than the school's scheduled academic year **or** fewer clock hours than the minimum statutory requirements for a full academic year. Terms within the same academic year as the student's final term are considered part of the final period of study, even if separated from the final term by a term in which the student is not enrolled.

Rousimoff College has an academic year that consists of three quarters: fall, winter, and spring. Laurel will be enrolling in the fall and spring quarters, but not the winter quarter, and will graduate at the end of the spring quarter. Because the fall quarter is in the same academic year as Laurel's final quarter, it is part of the final period of study, even though there is a term between the final quarter and the fall quarter in which Laurel will not enroll. Because the fall quarter is part of the final period of study, the loan Laurel receives in the fall must be prorated, just as her spring loan must be prorated.

At a **nonterm** school (where programs are measured only in clock or credit hours), a final period of study is considered less than an academic year if the final period consists of fewer clock or credit hours or weeks of institutional time than the minimum statutory requirements for a full academic year.

To prorate the loan for a program that exceeds an academic year but has a final period of study less than a full academic year in length, schools must calculate what proportion of a full academic year the final period of study represents. The loan amount is then prorated on that basis.

Final period example

José is an independent third-year student at Van Dam College. Van Dam has 36 quarter hours and three quarters. José needs to complete only 24 quarter hours to finish his program and enrolls in the fall and winter quarters. Because his final period of study (2 quarters) is less than an academic year (3 quarters), his Stafford Loans must be prorated. The school determines the proportion of the academic year the final period of study represents by dividing the credit hours in this period by the number in a full academic year:

$$\frac{\text{24 quarter hours in final period}}{\text{36 quarter hours in academic year}}$$

The school then multiplies the loan limit for all third-year students ($5,500) by 24/36 to determine the maximum subsidized Stafford Loan José can receive:

24/36 X $5,500 = $3,667

José can receive up to $3,667 in combined subsidized and unsubsidized Stafford Loans. Because José is an independent student, he may be eligible for an additional unsubsidized Stafford Loan. To determine the amount, Van Dam multiplies the unsubsidized limit for independent students ($5,000) by 24/36:

24/36 X $5,000 = $3,333

José may be eligible for an additional prorated unsubsidized Stafford Loan of up to $3,333.

In some cases, the school will use both fixed and proportional proration to determine the loan amount for a final period of study. See the example on the next page.

Enrollment status changes

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

Mixed proration example

Laurel is an independent second-year student at Rousimoff College. She has 16 quarter hours to complete in her program and will enroll in the fall and spring quarters. Each quarter at Rousimoff consists of 10 weeks of instructional time. Laurel will graduate at the end of the spring quarter. Because this final period of study is shorter than an academic year, Laurel's Stafford Loans must be prorated. Rousimoff determines the length of the final period by dividing the number of quarter hours in the period by the number of hours in the academic year:

$$\frac{\text{16 quarter hours in final period}}{\text{36 quarter hours in academic year}}$$

The school then multiplies the loan limit for all second-year students ($3,500) by 16/36 to determine the maximum amount Laurel can receive in combined subsidized and unsubsidized Stafford Loans:

16/36 X $3,500 = $1,556

Because Laurel is an independent student, she may be eligible for an additional unsubsidized Stafford Loan. The school compares the two fractions required for fixed proration:

$$\frac{\text{16 quarter hours in final period}}{\text{36 quarter hours in academic year}} \qquad \frac{\text{20 weeks instructional time in final period}}{\text{30 weeks instructional time in academic year}}$$

16/36 = .44 20/30 =.67

Of the two fractions, the smaller is .44; the school uses .44 as the length of Laurel's final period of study when determining the prorated loan amount. The period is less than 2/3 of an academic year (.66) but greater than 1/3 (.33). Therefore, Laurel may be eligible for an additional prorated unsubsidized Stafford Loan of up to $1,500.

TYPE OF ACADEMIC YEAR AND FREQUENCY OF ANNUAL LOAN LIMITS

The annual limit for Stafford Loans limits how much a student can borrow in a single academic year. Once the student has reached the annual loan limit, he or she cannot receive another Stafford Loan until he or she begins another academic year. There are two types of academic years a school can use in determining when another year will begin for the student: a scheduled academic year (SAY) or a borrower-based academic year (BBAY). Only term-based credit-hour programs can use SAYs. Clock-hour and nonterm credit-hour programs must use BBAYs. If a program at a term-based credit-hour school contains fewer than 30 weeks of instructional time in a year (unless the Department grants a waiver for an academic year of less than 30 weeks), the school must use only SAYs for borrowers in that program.

Scheduled Academic Year

An SAY is a fixed period of time that generally begins and ends at the same time each calendar year (for example, beginning on the first day of the fall semester and ending on the last day of the spring semester). The SAY generally corresponds to the academic year or calendar that is published in the school's catalog or other materials. An SAY must meet the statutory requirements of an academic year, as described in Chapter 3.

Summer terms

For a program that uses SAYs, a summer term may be part of the academic year that preceded that term (that is, it may be a "trailer"), or it may be part of the academic year that follows that term (that is, it may be a "leader"). The school can

- ◊ use a strict policy that summer terms are always trailers or leaders,
- ◊ determine whether a summer term is a trailer or leader on a program-by-program basis, or
- ◊ determine whether a summer term is a trailer or leader on a case-by-case basis.

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

Borrower-based Academic Year

A BBAY is not a set period like an SAY; instead, the BBAY's beginning and end dates depend on an individual student's enrollment and progress. For example, a school that has new students beginning enrollment every month might use a BBAY for each student that begins in the month the student enrolls, rather than using an SAY that begins in the fall regardless of when the student actually begins classes. Like an SAY, the BBAY must meet the minimum statutory requirements for an academic year (see the next page for one exception to this requirement for term-based credit-hour programs.)

As noted previously, a school must use BBAYs for clock-hour and nonterm credit-hour programs. A school may choose to use a BBAY instead of an SAY for a term-based credit-hour program unless the program contains fewer than 30 weeks of instructional time in a year; in this case, as mentioned earlier, the school must use an SAY for the program.

Term-based credit-hour programs

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

The BBAY must include the same number of terms as the SAY the school would otherwise use (not including any summer trailer or leader). The BBAY may include terms and/or mini-sessions the student does not attend if the student could have enrolled at least half time in those terms or mini-sessions; however, unlike an SAY, the BBAY must begin with a term in which the student actually enrolled. Also, any mini-sessions (summer or otherwise) that run consecutively **must** be combined and treated as a single term. If the BBAY includes a summer term, the BBAY need not meet the 30-week minimum requirement for an academic year.

Clock-hour programs, nonterm programs

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

Eligibility for Further Loans

In general, once a student has reached the annual loan limit, he or she cannot receive another Stafford Loan until he or she begins a new academic year. A student who has already received one Stafford Loan within an academic year may receive another loan if he or she has not yet reached the annual limit. In addition, a student who has already borrowed up to the annual limit within an academic year can receive another loan if his or her annual limit is increased, either because he or she progresses to a grade level with a higher limit or because his or her dependency status changes to independent. In all cases, the student may borrow the difference between the amount already borrowed within the academic year and the student's loan limit.

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

AGGREGATE LOAN LIMITS

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

◊ $23,000 for a dependent undergraduate student,

◊ $46,000 for an independent undergraduate student, and

◊ $138,000 for a graduate or professional student (including loans for undergraduate study).

Note that these maximums include any amounts borrowed under the William D. Ford Federal Direct Loan Program (Direct Loans) and that any outstanding Federal Supplemental Loans for Students (SLS) that a borrower has count as unsubsidized loans against the borrower's aggregate loan limit.

The aggregate limit (or sum total) for both undergraduate and graduate/ professional students must include the amounts a student has outstanding in subsidized and unsubsidized loans **under both the Direct Loan and FFEL programs**, even if the student has consolidated any of these loans under either program. A student should contact his or her consolidation loan holder to determine the makeup of the loan—that is, the amount and information on Federal Consolidation Loans. See Chapter 11 for more information on Direct Consolidation Loans.

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

Total Cumulative Loan Limits for FFELs and Direct Loans

Dependent Undergraduate	PLUS Loans	Independent Undergraduate	Graduate
$23,000 (subsidized and unsubsidized)	No limit	$46,000 (subsidized and unsubsidized with subsidized limited to $23,000)	$138,500 (subsidized and unsubsidized, with subsidized limited to $65,500; includes any loans outstanding from undergraduate study)

INCREASED LOAN LIMITS FOR HEALTH EDUCATION ASSISTANCE LOAN (HEAL) STUDENTS

An increase in **annual** unsubsidized Stafford Loan limits is permitted for students who could have borrowed under the Health Education Assistance Loan (HEAL) Program but who are no longer eligible because they did not borrow under that program before October 1, 1995. Students in this category who are enrolled **full time** in schools that participate in the HEAL Program are eligible for the higher unsubsidized Stafford Loan amounts. Obversely, students who remain eligible to borrow under HEAL (students who **did** receive HEALs before October 1, 1995) may **not** receive the increased Stafford Loan amounts.

A school that participates in HEAL is one that made HEAL disbursements during Fiscal Year 1995 (October 1, 1994 through September 30, 1995). Schools that have withdrawn from the HEAL Program—or have simply stopped making HEALs—after FY 95 may certify unsubsidized Stafford Loans at the increased limits for any loan period that begins before July 1, 1998.

When determining additional unsubsidized Stafford Loan limits, participating HEAL schools must use the current HEAL Program and Discipline loan limits, described in the Department of Health and Human Services Student Financial Aid Guidelines Notebook in Section 104.3.2. Note that, unlike in HEAL, no need analysis is required for the extra unsubsidized Stafford Loan amounts.

The **aggregate** unsubsidized Stafford Loan limit for these health profession students is $189,125 less the aggregate amount of the subsidized loans made to students.

section 3

Payment to the Borrower

The lender disburses loan proceeds to the school for delivery to the student or parent borrower. A school may credit loan proceeds to the student's account, pay the student or parent directly, or combine these methods.

DEFINITIONS OF DELIVERY AND DISBURSEMENT

A delivery of funds to the student occurs on the date the student's school account is credited by that school or on the date the borrower (student or parent) directly receives the Federal Family Education Loan (FFEL) funds from the school. If a school combines these methods of payment, delivery occurs on the earlier of the two dates. For a school that uses its own institutional funds to credit the student's school account or to pay the student before the FFEL funds are received from the lender, delivery occurs on the date that those institutional funds are credited to the student's account or paid directly to the borrower. Again, if a school combines these methods of payment, delivery occurs on the earlier of the two dates.

If a school credits a student's account with institutional funds more than 10 days before the first day of classes, the delivery is considered to have occurred on the 10th day before the first day of classes. Similarly, if a school credits the account of a first-time, first-year, undergraduate borrower with institutional funds sooner than 30 days after classes start, the delivery is considered to have occurred on the 30th day after classes start. Disbursement of FFEL funds is made by a lender; delivery of those funds is made by a school. However, for the purposes of the cash management rules, disbursement is used to mean delivery. See Chapter 3 for more information on cash management.

Because the functions of authorizing payment and delivering loan proceeds must be separate, no single office at the school is permitted to carry out both functions.

Separate offices for authorizing and delivering

FINANCIAL AID HISTORY AND NSLDS

As stated in Section 2, during the loan application process, a financial aid administrator must request a financial aid transcript (FAT) from each eligible school a student previously attended or must use the National Student Loan Data System (NSLDS) to obtain the student's previous financial aid information. It is the financial aid administrator's responsibility to determine whether a student previously attended an eligible school and to obtain the proper information. (Procedures for obtaining FATs are described in Chapter□3.) Until a school receives an FAT from each of a student's previously attended schools, the school may not deliver Federal Stafford Loan proceeds to a student. In the case of a Federal PLUS Loan, the financial aid administrator must not even certify the application until the school receives an FAT from each of the benefitting student's previous eligible schools.

A school may **not** release funds to the student if information a previous school provided indicates that the student is in default on an Student Financial Assistance (SFA) loan or if that the student owes a repayment on an SFA grant. See Chapter□2 for information on these eligibility issues.

METHODS OF DISBURSING AND DELIVERING LOAN FUNDS

Disbursement to School

Because authorization for a lender's disbursement by electronic funds transfer (EFT) or master check is collected on the common Stafford Loan and PLUS Loan applications, a school is not required to obtain a separate written authorization for the lender's disbursement in most cases. If a lender disburses Stafford Loan or PLUS Loan proceeds by EFT or master check and the borrower did not provide authorization on the application, the school must obtain the borrower's written authorization for the lender's disbursement of the initial and any subsequent disbursement. The school must collect this authorization not more than 30 days before the first day of classes of the enrollment period.

With the first disbursement of loan proceeds, the lender must provide the borrower with a copy of the completed promissory note and repayment information. A school is also required to provide certain notifications to borrowers before delivering loan funds to them.

See Chapter 3 of this handbook for more information on required authorizations and notifications. Chapter 3 also provides information on a borrower's right to cancel a loan or a portion of a loan before or soon after the time of disbursement.

Delivery to Borrower

A school may deliver FFEL funds directly by releasing the lender's check to the borrower (student or parent), by crediting the borrower's bank account via EFT, by issuing a check, or by paying the borrower in cash. Before delivering funds, a school must obtain the borrower's authorization to do so. The school must keep the authorization in the student's file.

A check a school issues to a borrower must be made payable to the borrower and must be endorsed or certified by that borrower. (The school issues the check by releasing or mailing it to the borrower or by notifying the borrower that the check is available for immediate pickup.) A borrower receiving cash from a school must provide the school with a signed receipt when receiving the funds.

DISBURSEMENT AND DELIVERY REQUIREMENTS

The School's Role

A school may not deliver the first FFEL installment to a first-time, first-year undergraduate until 30 days after the first day of the student's program of study.

In the case of a lender that disburses FFEL funds to a school by check requiring the endorsement of the borrower

Check requiring borrower endorsement

- ◊ a school may not request lender disbursement of the borrower's loan proceeds until the 30th day before the first day of classes for a payment period.
- ◊ for first-year, first-time borrowers, a school may not request the first disbursement of a Stafford Loan until the first day of classes of the first payment period. For any subsequent payment period, a school may not request a disbursement earlier than 30 days before the first day of classes.

First-year, first-time borrowers

In the case of a lender that disburses FFEL funds to a school by EFT or master check

EFT or master check

- ◊ a school may not request lender disbursement of the borrower's loan proceeds until the 13th day before the first day of classes of payment period. (This time frame applies to PLUS Loans as well.)
- ◊ for first-year, first-time borrowers, a school may not request the first disbursement of a Stafford Loan until the 27th day after the

First-year, first-time borrowers

first day of classes of the first payment period. For any subsequent payment period, a school may not request a disbursement earlier than 13 days before the first day of classes. (This time frame does not apply to PLUS loans)

Before each disbursement is made, a school must review the student's eligibility to ensure that he or she remains eligible for the disbursement. If a student temporarily ceases to be enrolled at least half time before any FFEL funds are disbursed, the lender may still make a first disbursement (and subsequent disbursement) if the student resumes enrollment at least half time. The school must review the student's cost of attendance (COA) and revise it as necessary to ensure the student continues to qualify for the entire amount of the loan, even though the COA may be lower. The school must document this review in the student's file. Reaffirmation of loan eligibility requires the school to verify Pell Grant eligibility (if applicable), to establish that the student has maintained satisfactory academic progress standards, and to verify enrollment status. When the school reports the student's change in enrollment status but expects the student to resume enrollment within a time period that is less than a payment period in length, it must specifically request that the lender make the second or subsequent disbursements. Otherwise, the lender is required by law to cancel the second disbursement.

Resuming enrollment—34CFR 682.604(b)(2)(iv)

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

The Lender's Role

A lender must give a borrower a copy of an initial disclosure statement prior to, or at the time of, the first loan disbursement. This statement must indicate:

- in bold print that this is a loan that must be repaid;
- the principal amount of the loan;
- the actual interest rate;
- the amount of any charges, including the origination fee if applicable, and the insurance premium, to be collected by the lender before or at the time of each disbursement on the loan;
- when repayment is required and when the borrower is required to pay the interest that accrues on the loan;

- ◊ the name and address of the lender and the address to which communications and payments should be sent;
- ◊ that the lender may sell or transfer the loan to another party and that the address and identity of the party to which correspondence and payments should be sent may change;
- ◊ the yearly and cumulative maximum amounts that may be borrowed;
- ◊ that information concerning the loan (including the amount of the loan and the date of disbursement) will be reported to a national credit bureau;
- ◊ the minimum annual payment required, and minimum and maximum repayment periods;
- ◊ an estimate of the monthly payment due the lender, based on the borrower's cumulative outstanding debt (including the loan applied for);
- ◊ refinancing and consolidation options;
- ◊ that the borrower has the right to make prepayments;
- ◊ circumstances under which repayment of principal or interest on the loan may be deferred and an explanation of forbearance;
- ◊ that the U.S. Department of Defense offers a repayment option (as an enlistment incentive);
- ◊ the definition of default (and the consequences of default);
- ◊ the effect of the loan on eligibility for other student assistance; and
- ◊ an explanation of borrower costs incurred in collection of the loan.

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

Multiple disbursement requirements

A lender must disburse loan proceeds in at least two installments. No installment may exceed one-half the loan amount. There are two exceptions to this multiple disbursement requirement:

◊ A lender is not required to disburse a Federal Consolidation Loan in more than one payment.

◊ A lender is not required to make more than one disbursement of any FFEL if the student is attending an eligible foreign institution.

Chapter 3 discusses in detail the requirements of the cash management regulations published on November 29, 1996. The discussion here will focus on how those regulations affect FFEL disbursement and delivery procedures.

Disbursement schedule requirements

If a school's 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 only one term, a lender disburses a FFEL in equal amounts at the beginning of the term and at the term's calendar midpoint. However, if any payment period has elapsed before a lender makes a disbursement, the lender may include in the disbursement the proceeds for all completed payment periods. Similarly, if a loan period equals one payment period and more than half of it has elapsed, a lender may include in a disbursement the proceeds for the entire payment period.

◊ If there is more than one term, funds 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 basically equal payments. Previously, quarter-based schools could have disbursed loan funds for all three quarters in two disbursements.

If a school's 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, a lender disburses a FFEL in equal amounts at the beginning of the term and at the term's calendar midpoint. The second disbursement may not be made, however, until the later of

- the calendar midpoint between the first and last scheduled days of class of the loan period, or

- the date (determined by the school) that the student has **successfully** completed half of the academic coursework (for credit hour schools) or half the clock hours (for clock hour schools) in the loan period.

◊ If the program is longer than an academic year, the lender makes disbursements as described above for the first and any subsequent full academic year. If the remaining portion of the program is less than a full academic year, the lender disburses a FFEL in equal amounts at the beginning of the remaining portion and at the portion's calendar midpoint. Again, the second disbursement may not be made until the later of the two dates described above.

OVERAWARDS

If a school becomes aware, before FFEL funds are disbursed, that a student has obtained additional financial assistance resulting in an overaward (that is, an award in excess of the amount for which the student is eligible), the school must take steps to reduce the overaward. For example, the school may reduce the second or subsequent disbursement of the loan or return excess loan proceeds to the Department. See Chapter 2 for a detailed discussion of overawards and a school's options.

CREDIT BALANCES

A school must pay a credit balance directly to a student or parent

◊ no later than 14 days after the balance occurred if the credit balance occurred after the first day of class of a payment period or

◊ no later than 14 days after the first day of class of a payment period if the credit balance occurred on or before the first day of class of that payment period.

Note that this 14-day requirement is now a standard for all SFA programs.

A school may hold any additional loan proceeds in excess of those necessary to cover allowable school charges the student owes (for use during the remainder of the academic year) **only** with the student's written authorization. A school may not require or coerce a student to provide authorization, and a school must allow for cancellation or modification of the authorization at any time.

Deposit of credit balances—34CFR 668.165(b)

The credit balance must be deposited in a subsidiary ledger account; also, the school must maintain cash in its bank account for an amount equal to the amount of the funds the school holds for the student.

A school must pay any remaining balance on loan funds by the end of the loan period in the award year for which the funds were awarded.

In the case of a PLUS Loan, a school must obtain the parent borrower's written authorization to deliver a credit balance of PLUS funds directly to the student. Otherwise, the school must deliver these funds to the parent.

LATE DISBURSEMENT

If the lender disburses the Stafford Loan or PLUS Loan proceeds after the end of the period of enrollment for which the loan was made, the proceeds must be returned to the lender within 30 days, **unless the proceeds are the first disbursement of the loan and come with a notice from the lender stating that this represents a late first disbursement**. Similarly, if the lender disburses the loan proceeds before the end of the enrollment period but after the student has left school or dropped below half-time status, the school must return the loan proceeds to the lender within 30 days unless this disbursement is a late disbursement.

Under FFEL Program regulations, a lender may make a late disbursement (that is, disburse loan proceeds after the student is no longer enrolled on at least a half-time basis) of a Stafford Loan or PLUS Loan only if the student became ineligible solely due to his or her change in enrollment status.

A school may disburse late funds (Stafford or PLUS) only if the school certified the loan application before the student dropped below half-time enrollment **and** the loan funds will be used to pay educational costs that the school determines the student incurred for the period in which he or she was enrolled and eligible. In addition, before the date the student became ineligible, the school must have received a *Student Aid Report* (SAR) from the student or an *Institutional Student Information Record* (ISIR) from the Department. The SAR or ISIR must have an official Expected Family Contribution (EFC) which is calculated by the Department. If the student is a first-year, first-time borrower, he or she must also have completed the first 30 days of his or her program of study to receive a late disbursement of a Stafford Loan or to benefit from the late disbursement of a PLUS Loan.

A school may make a late disbursement of a Stafford Loan or PLUS Loan no later than 90 days after the date that the borrower became ineligible for the loan.

A school may not make a late second or subsequent disbursement of a Stafford Loan unless the student has graduated or successfully completed the period of enrollment for which the loan was intended.

BORROWER INELIGIBILITY AND RETURN OF FUNDS TO LENDER

10-Day Periods

The regulations provide for three discrete 10-day periods for disbursing and returning FFEL Program funds.

For purposes of the cash management regulations and this discussion, returning funds “promptly” means that a school may not delay initiating and completing its normal process for returning FFEL Program funds to lenders.

Also for these purposes, the requirement that a school “return funds no later than 10 business days” means that a school must mail a check or initiate an EFT of FFEL funds to the lender by the close of business of the last day of the return period.

Initial Period

For FFEL Program funds a school receives from a lender via EFT or master check, a school must disburse those funds to eligible students (or, for PLUS Loan funds, to parents of eligible students) no later than 10 business days after the school receives the funds.

For FFEL Program funds that a school receives from a lender via a check requiring the endorsement of the student (or parent), the school must disburse those funds to eligible students (or, for PLUS Loan funds, to parents of eligible students) no later than 30 calendar days after the school receives the funds.

Conditional Period

A school has 10 business days after the last day of the initial period to disburse FFEL Program funds only if

- ◊ the student did not satisfy a programmatic requirement necessary to receive the funds during the initial period **and**

- ◊ the school expects the student to satisfy that requirement during the conditional period.

Return Period

For FFEL Program funds that a school does not disburse by the end of the initial or conditional period, as applicable, the school must return those funds to the lender promptly but no later than 10 business days from the last day of that initial or conditional period. However, if a student becomes eligible to receive FFEL program funds during the return period, the school may disburse those funds provided that the disbursement is made on or before the last day of the return period.

Student's Failure to Register, Begin Delayed Attendance, or Complete Verification

If a school discovers that a student did not register for the period of enrollment covered by the loan or did not begin delayed attendance within the first 30 days of enrollment, the school must return the loan proceeds to the lender within 30 days of this determination. If a student registers and receives the loan proceeds but attends less than half time or is otherwise found to be ineligible for all or part of the loan, the student has failed to qualify for the loan, and the lender must immediately demand full loan repayment. It is the borrower's responsibility to notify the lender if he or she fails to enroll at least half time after receiving the loan. (The school must also notify the lender of the borrower's loan ineligibility.) It is also the borrower's responsibility to repay the amount due if he or she fails to qualify for it. **If the borrower fails to repay the loan, the lender, after following due diligence requirements (which include demanding payment in full), may file a default claim for the full loan amount**.

A school must return Stafford Loan proceeds to the lender if a student selected for verification does not complete the verification process within 45 days of the school's receipt of the proceeds. See *The* V*erification Guide, 1997-98* for more information on verification.

Effect of Returned Funds on Loan Fees

If a school returns a disbursement or any portion of a disbursement to the lender, the origination fee and insurance premium are reduced in proportion to the amount returned. If a student returns a disbursement or any portion of a disbursement to the lender, the origination fee and insurance premium are reduced in proportion to the amount returned **only if the lender receives the returned amount within 120 days after disbursement**.

REIMBURSEMENT PAYMENT METHOD

A school placed under the reimbursement payment method (for the Federal Pell Grant Program, Direct Loan Program, or campus-based programs) may not disburse FFEL Program funds to a borrower until the Department approves a request from the school to make a disbursement for that borrower. If prohibited by the Department, a school may not certify a borrower's loan application until the Department approves a request from the school to make the certification for the borrower. For the Department to approve a school's disbursement or certification request, the school must submit documentation verifying each borrower's eligibility for disbursement or certification. (A school participating only in the FFEL Program may also be subject to this requirement if the Department deems the requirement necessary.)

section 4

Repayment

GRACE PERIODS

A “grace period” is the period of time before the borrower must begin or resume repaying a loan. An “initial grace period” is one that immediately follows a period of enrollment and immediately precedes the date repayment is required to begin for the first time.

For borrowers who have been attending at least half time, initial grace periods are six consecutive months after the borrower drops below half-time study at an eligible institution or at a comparable school outside the United States. The exception to this rule is a borrower with a Stafford Loan at the 7% interest rate. This borrower has a 9- to 12-month grace period, which is set by the lender or the guaranty agency and is shown on the promissory note the borrower signs.

It is important to note that grace periods are always day-specific; that is, an initial grace period begins on the day immediately following the day the borrower ceases attending school at least half time and ends on the day before the repayment period begins. A borrower has ceased attending at least half time for the following reasons: because the student has completed the course of study, because the student has dropped out of school or has dropped below half-time status, or because the student transfers to a school that is not considered an eligible school for in-school deferment purposes (see Section 5 for more information). The borrower may request a shorter grace period.

Correspondence courses and grace periods

For correspondence students, the grace period begins on the earliest of the following three dates:

◊ the date the borrower completes the program

◊ the date that is 60 days after the school’s deadline for completing the program

◊ the date on which the borrower falls 60 days behind the due date for submitting a scheduled assignment.

For information on eligible correspondence programs, see Chapter 3.

For a student attending at least half time, the initial grace period does not end until he or she ceases to be enrolled at least half time for a **continuous** period of six months. A borrower who returns to school on at least a half-time basis prior to completion of the initial grace period is entitled to a full initial grace period, calculated as six consecutive months, from the date that he or she drops below half-time enrollment again. Suppose, for example, that a borrower takes out a loan in the fall quarter, drops out of school for the winter quarter, and resumes at least half-time study for the spring quarter. The borrower would still be entitled to a full initial grace period once he or she again leaves school or drops below half-time status.

Borrower with SLS loan

If a borrower has a Federal Supplemental Loans for Students (SLS) loan that has not yet entered repayment and a Federal Stafford Loan that has not yet entered repayment, the borrower may request that he or she be allowed to delay repayment on the SLS loan for the period equivalent to the Stafford Loan grace period so that repayment on both loans can begin at the same time. (Note that no new SLS loans are being made; the SLS Program was repealed beginning with the 1993-94 award year.)

Post-deferment grace periods

A borrower with Stafford Loans made prior to October 1, 1981 is entitled to a six-month **post-deferment** grace period following any deferment. The one exception is the unemployment deferment. Although a borrower may have several periods of unemployment deferred, he or she may receive a post-deferment grace period **only** following the first unemployment deferment.

INTEREST RATES

Federal Stafford Loans

In the past, the interest rate on a borrower’s first Stafford Loan applied to all subsequent Stafford Loans, as long as he or she had an outstanding balance on a loan at that interest rate when subsequent loans were obtained. However, the Technical Amendments of 1993 changed the law to enable borrowers with fixed interest rates on earlier Stafford Loans to obtain the variable interest rate previously available only to new borrowers.

Interest rates for Stafford Loans (subsidized and unsubsidized) follow:

- ◊ For a loan disbursed on or after October 1, 1992 and before July 1, 1994 to a borrower with no FFELs (either subsidized or unsubsidized) outstanding, the interest rate is variable and is determined on June 1 of each year.

  - The rate will be based on the bond equivalent rate of 91-day Treasury bills auctioned at the final auction before June 1 plus 3.1%.

  - The interest rate for these loans may not exceed 9%.

- ◊ For loans first disbursed on or after July 1, 1994, the interest rate is variable and is determined on June 1 of each year, regardless of whether that borrower has FFELs outstanding.

  - The rate will be based on the bond equivalent rate of 91-day Treasury bills auctioned at the final auction before June 1 plus 3.1% (except during in-school, grace, and deferment periods for loans that are first disbursed on or after July 1, 1995 but prior to July 1, 1998).

  - The interest rate for these loans may not exceed 8.25%.

For example, a borrower who has outstanding Stafford Loans with interest rates of 9% or 7% and whose newest Stafford Loan is disbursed on September 1, 1998 will receive a variable interest rate on that loan. The terms and conditions (and interest rates) of the prior loans will still apply to those prior loans unless the loans are converted to a variable interest rate because they are subject to rebates of excess interest (see next page).

The variable interest rate for July 1, 1997 through June 30, 1998 for the first category of loans (loans disbursed on or after October 1, 1992 and before July 1, 1994) is 8.26%. The variable interest rate for July 1, 1997 through June 30, 1998 for the second category of loans (loans first disbursed on or after July 1, 1995 but prior to July 1, 1998) is 8.25%.

As stated, during in-school, grace, and deferment periods for loans that are first disbursed on or after July 1, 1995 but prior to July 1, 1998, the interest rate is not the same as it is during repayment. Instead of being based on the bond equivalent rate of 91-day Treasury bills auctioned at the final auction before June 1 **plus 3.1%**, the rate is based on the bond equivalent rate of 91-day Treasury bills auctioned at the final auction before June 1 **plus 2.5%**. For this category of loans, the interest rate for July 1, 1997 through June 30, 1998 is 7.66%.

If an annual adjustment in a borrower's variable interest rate will prevent the loan from being repaid within the maximum allowable repayment period under the current repayment schedule, a lender must either make an adjustment in the borrower's monthly payment amount or grant a mandatory administrative forbearance as described in Section□5 of this chapter.

Conversion of Loans to a Variable Interest Rate

Certain fixed-rate loans disbursed in the past are also now subject to conversion to a variable interest rate. The Technical Amendments of 1993 required lenders to convert most loans **subject to rebate of excess interest** to variable rate loans by January 1, 1995. The variable rate depended on the type of loan converted but could not exceed the original fixed interest rate of the loan as specified in the promissory note. The loan holder was required to inform the borrower of the conversion to a variable rate at least 30 days prior to conversion.

Loans subject to a rebate of excess interest and conversion to a variable rate are

◊ Stafford Loans at 8% changing to 10% after four years of repayment

- If made before July 23, 1992, such a loan becomes subject to a rebate only when the interest rate increases to 10%

- If made to a first-time borrower on or after July 23, 1992 and before October 1, 1992, such a loan becomes subject to a rebate only when the interest rate increases to 10%

- If made to a repeat borrower on or after July 23, 1992 and before July 1, 1994, such a loan is subject to a rebate on the date the loan is made;

◊ 7%, 8%, and 9% fixed-rate Stafford Loans made to repeat borrowers on or after July 23, 1992 and before July 1, 1994.

Loans subject to rebate of excess interest are explained in more detail in the November 30, 1994 FFEL Final Rule.

Federal PLUS Loans

All Federal PLUS Loans made on or after July 1, 1987 have variable interest rates, determined on June 1 of each year according to a prescribed formula and is effective for the following July 1 through June 30.

The variable interest rate for a PLUS Loan first disbursed on or after July 1, 1987 and before October 1, 1992 must not exceed 12%. The interest rate for these PLUS loans for July 1, 1997 through June 30, 1998 is 9.13%.

The variable interest rate for a PLUS Loan first disbursed on or after October 1, 1992 and before July 1, 1994 may not exceed 10%. The interest rate for these PLUS Loans for July 1, 1997 through June 30, 1998 is 8.98%.

The variable interest rate for a PLUS Loan disbursed on or after July 1, 1994 and before July 1, 1998 must not exceed 9%. The bond equivalent rate of the 52-week Treasury Bills (auctioned at the final auction held prior to June 1 each year), plus 3.1% of that amount, equals the variable interest rate. The variable interest rate for these PLUS Loans for July 1, 1997 through June 30, 1998 is 8.98%.

Annual adjustments in interest rates may alter monthly payment amounts from year to year. Or, the lender may keep the monthly payment amount the same but increase (or decrease) the number of payments required to reflect the increase (or decrease) in the annual variable interest rate.

ADDITIONAL COSTS OF BORROWING

Loan Fees

In addition to interest, FFEL borrowers also pay insurance premiums and origination fees on their loans. A lender charges each FFEL borrower an origination fee. A guaranty agency charges the lender an insurance premium on each loan it guarantees. Generally, the lender passes this cost on to the borrower.

The maximum insurance premium that a guaranty agency may charge the lender of a Stafford Loan or PLUS Loan is a one-time fee not to exceed 1% of the principal amount of the loan. If the lender passes this charge on to the borrower, the fee must be deducted proportionately from each loan disbursement.

The origination fee is 3% of the principal amount of the loan. A lender may (but is not required to) charge an origination fee on a subsidized Stafford Loan. A lender must charge an origination fee on an unsubsidized Stafford Loan or a PLUS Loan. The lender must deduct (collect) the origination fee proportionately from each disbursement, regardless of the type of loan on which it is being charged.

Proration of fees

The origination fee and insurance premium, or appropriate prorated amounts of those fees, must be refunded by application to the borrower's account if

- ◊ the school returns the loan or a portion of the loan to the lender,
- ◊ the loan check has not been negotiated within 120 days of disbursement,
- ◊ the loan is repaid in full within 120 days of disbursement, or

◊ the loan proceeds were disbursed by electronic funds transfer (EFT) or by master check and the school has not released these funds from its restricted account within 120 days of disbursement.

Late Charges

If a borrower fails to pay all or a portion of a required installment within 15□days after it is due, the lender may require the borrower to pay a late charge (if authorized by the borrower’s promissory note). This charge may not exceed six cents for each dollar of each late installment.

Collection Charges

If authorized by the borrower’s promissory note, and notwithstanding any provisions of state law, a lender may require that a borrower or an endorser pay costs the lender or its agents incurred in collecting installments not paid when due. These charges, include but are not limited to

◊ attorney’s fees,

◊ court costs, and

◊ telegrams.

These costs may not include routine collection costs associated with preparing letters or notices or with making personal contacts with the borrower (for example, local and long-distance telephone calls).

REPAYMENT OF FEDERAL STAFFORD LOANS

While the borrower is in school at least half time (before the expiration of his or her grace period), the federal government pays the interest on a subsidized Stafford Loan on the his or her behalf. For an unsubsidized Stafford Loan, interest accrues during this period, and the borrower is responsible for paying it. The borrower may pay the interest while he or she is in school, or the lender will capitalize it (that is, add it to the principal balance).

Maximum repayment period

The loan repayment period for a Stafford Loan (subsidized or unsubsidized) begins the day after the grace period ends and ends no later than 10 years from that date (excluding periods of deferment and forbearance). Generally, the first payment on a Stafford Loan is due no later than 45 days after the first day that repayment begins. The lender must notify the borrower of the date and amount of the first payment as part of a repayment disclosure that must be sent to the borrower no less than 30 days before the date that the first payment is due and no more than 240 days before that date.

Determining a Student’s Withdrawal Date

The student’s withdrawal date is the date that the student notifies an institution of his or her withdrawal or the date of withdrawal specified by the student, whichever is later. If the student does not withdraw officially (that is, he or she drops out of school without notifying the school), the last recorded date of the student’s class attendance, as documented by the school, is the student’s withdrawal date. An institution must determine the withdrawal of a student who drops out in a timely manner. This date must be determined within 30 days after the expiration of the earliest of these three periods:

1) the period of enrollment for which the student has been charged;

2) the academic year in which the student withdrew

3) the educational program in which the student withdrew

In the case of a student who does not return from a summer break, the school shall determine the student’s withdrawal date no later than 30 days after the first day of the next scheduled term.

Leave of absence

A student who has been granted a leave of absence is not considered to have withdrawn from school. If a student fails to return from an approved leave of absence (whether approved or unapproved), the withdrawal date is the last recorded date of class attendance. This date is used regardless of whether the student withdraws officially (by notifying the school) or unofficially (by discontinuing attendance without notifying the school).

Correspondence course/ withdrawal date

For correspondence study, the withdrawal date is the date of the last lesson the student submitted. For appeal procedures with regard to the withdrawal date for correspondence study, see 34 CFR 668.22(j)(1)(iii).

The refund policy for students who have withdrawn, who have dropped out, or who have not returned from an approved or unapproved leave of absence is explained in Section 11.

It is the student’s responsibility to notify the lender of the date on which he or she ceases to be enrolled at a participating school at least half time. The financial aid administrator should emphasize to students the importance of that responsibility. Upon receiving notification of this critical date, the lender will send a repayment schedule to the borrower. If a loan sale or transfer requires the borrower to send payments to a new address, the present and former holders of the loan (either jointly or separately) must notify the borrower of the change within 45 days of the sale or transfer. This notification should spell out the borrower’s obligations to the new loan holder.

Loan Repayment Schedules

Provisions of a loan repayment schedule must agree with those in the promissory note and the loan disclosure statement. Generally, a borrower has from 5 to 10 years to repay a loan in full. Any periods of authorized deferment or forbearance are not counted in the repayment period.

Prepayment

A borrower may prepay all or part of a loan at any time without penalty. A lender has the option of crediting the payments first to late charges or collection costs, then to outstanding interest, and then to unpaid principal. If the borrower submits a payment amount that exceeds the normal monthly payment amount and does not provide instructions for handling the excess payment amount and the excess amount is equal to or greater than a full monthly payment, the lender must apply the excess to future installments, advancing the next payment due date. If the excess amount is less than a full monthly payment amount, the lender must apply it as a prepayment of principal.

Minimum payment amount

In general, the minimum total scheduled payments to all holders of a borrower’s FFELs must be at least $600 per year. Loan payments for Stafford Loans, however, usually exceed these minimums because of the 10-year statutory limit on repayment. Monthly payment amounts may not be set at less than the amount of interest due. The lender may round up the loan payment to ensure that the payment is a multiple of $5. The lender may require a repayment period of less than 5 years, if necessary, to ensure that the above minimum payments are met. Note that the $600-per-year minimum combined annual payment for a married couple with Stafford Loans is no longer permitted.

Repayment Plans

Lenders are required to offer the option of standard, graduated, or income-sensitive repayment to new Stafford or SLS borrowers. A new borrower is defined as someone who borrows on or after July 1, 1993 and who, at the time he or she borrows, has no outstanding balance on a FFEL borrowed before that date. The Secretary encourages lenders to offer this flexible range of repayment options to all other borrowers.

A lender must provide the choice of repayment plans to a borrower not earlier than six months before the date of the first scheduled loan payment. Even if a borrower does not choose a particular plan, the lender and borrower may agree (to the extent practicable) that the borrower will repay all of his or her FFELs under one repayment schedule.

A lender may agree to a standard, graduated, or income-sensitive repayment schedule for a new Stafford or SLS borrower, as long as the minimum annual payment and maximum time period requirements are met and as long as scheduled monthly payments cover at least the monthly interest charges. A borrower must respond to a lender's offer of a choice of repayment options within 45 days after the lender makes the offer, or he or she will be required to repay under a standard repayment schedule.

Standard repayment

The standard repayment plan has a fixed monthly payment amount. This amount may vary annually if an adjustment in a borrower's variable interest rate necessitates a change in his or her repayment schedule.

Graduated repayment

The graduated plan has a varying monthly payment amount. This amount increases incrementally during the repayment period. If a graduated repayment schedule is established, however, no single payment can be scheduled to be more than three times greater than any other scheduled payment.

Income-sensitive repayment

Under an income-sensitive repayment schedule, the amount of a borrower's installment payment is adjusted annually, based on the borrower's expected total monthly gross income. In general, the lender will request from the borrower information on his or her income no earlier than 90 days before the due date of the borrower's first payment. The income information must be sufficient for the lender to make a reasonable determination of what the borrower's payment amount should be. If a lender receives late notification that a borrower has dropped below half-time enrollment status at a school, the lender may request the income information earlier.

If a borrower reports income that a lender considers to be insufficient to establish monthly payments that would repay a loan within the maximum 10-year repayment period, the lender shall require the borrower to submit evidence showing the amount of the most recent total monthly gross income he or she has received from employment and from other sources.

A lender must grant forbearance to a borrower for a period of up to five years of payments if the income-sensitive monthly payment amount would prevent the borrower from repaying the loan within the maximum repayment period.

If a borrower chooses the income-sensitive plan but then does not provide any documentation that may be required for repayment under that plan, the lender may require that borrower to repay his or her loans under the standard repayment option.

There is no interest subsidy for PLUS Loan borrowers; the borrower is responsible for all interest that accrues on the loan while the student is in school and during periods of authorized deferment and forbearance.

The repayment period for a PLUS Loan begins on the date the last disbursement is made. The repayment period for a PLUS Loan ends no later than 10 years after repayment begins, excluding periods of authorized deferment and forbearance.

A PLUS Loan borrower's first payment of principal and interest is due within 60 days after the loan is fully disbursed, unless a deferment conditions applies. See the following section on deferments for more information.

PLUS Loan minimum payment amount

As stated in the discussion of Stafford Loans, the minimum total scheduled payments to all holders of a borrower's FFELs must be at least $600 per year. This minimum also applies to PLUS Loans. A borrower must pay a total of at least $600 per year on all of his or her PLUS Loans. If the borrower also received FFELs as a student, he or she must pay a total of at least $600 per year on all of his or her PLUS Loans and student FFELs combined. Monthly payment amounts may not be set at less than the amount of interest due. The lender may round up the loan payment to ensure that the payment is a multiple of $5. The lender may require a repayment period of less than 5 years, if necessary, to ensure that the above minimum payments are met.

Prepayment

There is no prepayment penalty for PLUS Loans. A lender may agree to a standard, graduated, or an income-sensitive repayment schedule for a PLUS Loan borrower, as long as minimum annual payment and maximum time periods for loan repayment are met. The Department encourages lenders to provide borrowers flexible repayment schedules as long as payments at least cover interest charges.

If, after a parent obtains a PLUS Loan, the student for whom the parent borrowed enrolls less than half time or does not enroll at all during the period for which the loan was intended, the entire amount is immediately due to the lender. It is the parent's responsibility to notify the lender of the date on which his or her child (for whom the parent has taken out a PLUS Loan) ceases to be enrolled at a participating school at least half time. The school also must promptly inform the lender when the student for whom the parent borrowed drops below half-time status.

CAPITALIZATION OF INTEREST

Capitalization is the addition of accrued interest to a borrower's loan principal. The interest accruing during the period from the date of first disbursement of the loan to the beginning of the borrower's enrollment period, and during the period from the date the first loan payment was due until it was made may be capitalized on the date repayment is scheduled to begin. Interest may be capitalized no more frequently than quarterly and any time repayment begins or resumes. Generally interest is capitalized when a borrower elects not to pay it (or fails to pay it) during forbearance or during in-school, grace, and deferment periods on unsubsidized Stafford Loans and PLUS Loans. (On subsidized Stafford Loans, interest is paid by the federal government during the last three periods mentioned.)

If a borrower has agreed to pay interest during a deferment or forbearance period or during an in-school or grace period but fails to resolve a payment delinquency, the lender also may, after notifying the borrower, capitalize the delinquent interest and all interest accruing for the remainder of the period of deferment or forbearance. The borrower should understand that capitalization of interest increases the principal balance of the loan.

REPAYMENT DISCLOSURE STATEMENT AND BILLING

A lender must provide a Stafford Loan borrower with a repayment disclosure statement not less than 30 or more than 240 days before the borrower's first payment is due. In addition, the lender or holder of the loan must notify the borrower—not later than 120 days after the borrower has left school—of the date repayment begins.

The repayment disclosure statement must provide the borrower the following information:

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

◊ the estimated balance owed by the borrower on the loans covered by the disclosure statement as of the date on which repayment is due to begin (including capitalized interest, if applicable);

◊ the stated interest rate on the loan or loans, or the combined interest rate of loans with different rates;

◊ the amount of the loan, the insurance premium, the loan origination fee, and any other charges, and how they are to be paid;

◊ the repayment schedule, including when repayment will begin (due date of first payment), when accrued interest must be paid, and the number, amount, and frequency of required repayments;

◊ refinancing and consolidation options;

◊ for subsidized Stafford Loans, the projected total of interest charges the borrower will pay, if payments are made according to the repayment schedule; for unsubsidized Stafford Loans and PLUS loans, sample projections of monthly payments at various interest rates and with interest capitalization; and

◊ a statement explaining the borrower's right to make prepayments.

Lender treatment of several loans of same type

Lenders shall treat all of a borrower's loans of the same type as one loan for billing and deferment purposes. A borrower with several Stafford Loans held by a single lender would, therefore, receive one billing notice for all of his or her loans; any deferment received for one of the loans would apply to all of the borrower's Stafford Loans held by that lender. In addition, guaranty agencies must try to ensure that a borrower's loans are maintained by one lender, one loan holder, and one loan servicer, in order to reduce the number of agencies contacting the borrower. These efforts to simplify loan repayment are to be made with the cooperation of the borrower.

section 5

Deferment & Forbearance

Deferment periods are periods during which payment of principal on a Federal Family Education Loan (FFEL) is postponed and, for subsidized Federal Stafford Loans, interest subsidy payments are made by the federal government. Once repayment begins, a borrower is entitled to a deferment if he or she meets the requirements for one. However, **a borrower must request a deferment either verbally or on a form the lender provides. A borrower also must provide documentation to the lender in support of the request. For an in-school deferment on a Stafford Loan or Federal PLUS Loan, the borrower may apply on the loan application.**

A borrower who requests deferment should continue making payments on a loan until he or she receives notification that the deferment has been approved. A deferment period begins on the date the qualifying condition, such as unemployment or military service, begins. A deferment may be granted retroactively. However, it cannot be granted retroactively to begin more than six months before the date the lender receives the request and supporting documentation.

The following deferments apply to "new" FFEL borrowers (Stafford Loan, PLUS Loan, and Consolidation Loan borrowers). A new borrower for deferment purposes is one whose first loan disbursement was made on or after July 1, 1993 and who, at the time the loan application was certified, had no outstanding balance on **any** FFEL made before that date.

Deferments are authorized for

- at-least-half-time study by the borrower at an eligible school;
- study in an eligible graduate fellowship program, including study outside the United States;
- study in an approved rehabilitation training program for the disabled;

◊ up to three years during periods in which the borrower is seeking and unable to find full-time employment; and

◊ up to three years during periods that the lender determines will cause the borrower economic hardship.

IN-SCHOOL DEFERMENT

A deferment for full- or half-time study at an eligible school is commonly referred to as an "in-school" deferment. Any school that meets the definition of an eligible institution, whether or not it is currently participating in any SFA Program, is an eligible school for the purpose of the in-school deferment. However, if a school has never participated in the SFA Programs, the Department must determine whether the school meets the definition of an eligible institution before the school may certify an in-school deferment. Please refer to Chapter 3 for additional information on institutional eligibility requirements.

A Stafford Loan or PLUS Loan application can serve as a request for in-school deferment for a full-time student. A lender or guaranty agency may rely on the school's certification of a borrower's eligibility on the loan application for the in-school deferment. The anticipated graduation date on the application is considered to be the end date of the in-school deferment. However, the school is required to update the lender and guarantor on the borrower's status using the Student Status Confirmation Report (SSCR).

Medical Interns and residents

Since July 1, 1993, medical interns and residents have not qualified for in-school deferments because these borrowers are not considered to be maintaining an in-school status. However, medical interns or residents who are new borrowers, may meet the regulatory provisions for an economic hardship deferment. (This type of deferment is not based on the borrower's status as a medical intern or resident.) Dental interns and residents continue to qualify for in-school deferments.

UNEMPLOYMENT DEFERMENT

Before the end of each six-month period of unemployment, a borrower must provide an additional deferment request, affirming his or her continuing search for employment. For details on other unemployment deferment eligibility criteria, see 34 CFR 682.210(h).

ECONOMIC HARDSHIP DEFERMENT

Economic hardship exists when the borrower is receiving payment under a federal or state public assistance program or is working full time and is earning a total monthly gross income that does not exceed the greater of the following two amounts:

◊ the minimum wage

◊ the poverty line for a family of two, as determined in Section 673(2) of the Community Service Block Grant Act.

Other criteria for economic hardship

The borrower may also meet other criteria to determine economic hardship. Specifically, the borrower may qualify if he or she is working full time and has a federal education debt burden (including defaulted loans) that is at least 20% of the borrower’s total monthly gross income. The borrower’s income, minus the educational debt burden, must be less than 220% of the total monthly gross amount associated with minimum wage rate work or earnings equal to 100% of the poverty line for a family of two. A borrower not working full time may qualify if his or her total monthly gross income does not exceed two times either the minimum wage or the poverty line for a family of two and, after deducting the borrower‘s monthly education loan payments, the remaining amount of the borrower’s income does not exceed either the minimum wage or the poverty line for a family of two.

In addition, a borrower may receive an economic hardship deferment under FFEL if he or she has been granted an economic hardship deferment under either the William D. Ford Federal Direct Loan Program (Direct Loans) or the Federal Perkins Loan Program for the same period of time for which the FFEL economic hardship deferment is requested. Other criteria for this deferment are described in 34 CFR 682.210(s)(6).

ADDITIONAL PLUS LOAN DEFERMENT

A PLUS Loan borrower whose loan was first made and disbursed prior to July 1, 1993 qualifies for a deferment when a dependent student for whom the parent borrowed a PLUS Loan is still dependent and meets one of the following conditions:

◊ The student is attending an eligible school full time.

◊ The student is attending full time at an institution of higher education or a vocational school that is operated by an agency of the federal government.

◊ The student is enrolled in an eligible graduate fellowship program or in an approved rehabilitation training program for the disabled.

◊ The student is attending an eligible school half time, and he or she meets **all** of the following conditions:

- The student has an outstanding balance on a Stafford Loan or SLS loan borrowed on or after July 1, 1987 but before July□1, 1993.
- On the date the student signed the promissory note for that loan, he or she had no outstanding balance on another FFEL borrowed before July 1, 1987.
- The student obtains a Stafford Loan or Direct Loan for the same enrollment period for which the parent is applying for a deferment.

DEFERMENT ELIGIBILITY ISSUES

Retroactive granting of deferment

A deferment may be granted retroactively. However, it cannot be granted retroactively to begin more than six months before the date the lender receives the request and supporting documentation. For example, a borrower whose Stafford Loan has entered repayment returns to school full time from September 1996 to May 1997. The borrower requests a deferment and provides supporting documentation to the lender in July□1997. The lender may grant the deferment (provided that the borrower meets all eligibility requirements for it), but the deferment can cover only the portion of enrollment from January 1997 (six months before the lender received the request and documentation) to May 1997 (the end of the qualifying period). If the borrower did not make payments between September 1996 and January 1997, the lender may apply a forbearance to that period to cure the delinquency.

Defaulted loan

A borrower whose loan is in default is **not** eligible for any deferments for that loan—unless the borrower has made payment arrangements acceptable to the lender prior to the payment of a default claim by a guaranty agency.

Please note that a co-maker on a Federal PLUS or Federal Consolidation Loan may receive a deferment if both borrowers are simultaneously eligible for the same or different deferments.

The financial aid administrator may wish to reassure students with previous loans—if they are concerned about changes in deferment conditions—that deferments listed on their promissory notes cannot be changed; however, additional deferments that could apply to **all** borrowers may be added by future legislation.

Because the repayment period on a PLUS Loan begins on the date of last disbursement, a deferment covering such a loan would also begin on the date of the last loan disbursement.

DEFERMENT PROVISION CHART FOOTNOTES

The following footnotes apply to the deferment chart on page 10-63:

1. Includes student PLUS Loan borrowers and Consolidation Loans made prior to November 1, 1983.
2. A borrower who, on the date he or she signs the promissory note, has no outstanding balance on (1) a Stafford Loan, SLS loan, or PLUS Loan made before July 1, 1987 for a period of enrollment beginning before July 1, 1987 or (2) a Consolidation Loan that repaid such a loan.
3. A new borrower who, on the date he or she applies for a loan, has no outstanding balance on a Stafford Loan, SLS loan, PLUS Loan, or Federal Consolidation Loan made before July 1, 1993 **and** whose first disbursement of the loan is made on or after July 1, 1993.
4. Consolidation Loans made on or after July 1, 1993 to borrowers who have no outstanding FFELs other than the FFELs to be consolidated.
5. A Stafford Loan or SLS loan borrower or a PLUS Loan parent borrower who was made or disbursed on or after July 1, 1987 and before July 1, 1993 and who, on the date he or she signed the promissory note, had no outstanding balance on a FFEL made before July 1, 1987 is eligible for deferment while engaged in at least half-time study at a participating school **if** the borrower obtains a Stafford Loan for that period of enrollment. If a new borrower (see footnote 3) under these loan programs receives a first disbursement on or after July 1, 1993, he or she is not required to borrow loans to qualify for the deferment.

6. Deferment approval for a new borrower enrolled in a graduate or postgraduate, fellowship-supported program (that is, a Fulbright Fellowship) will extend for the duration of the fellowship period.

7. Public Law 102-26 authorized, for the period of April 9, 1991 to September 30, 1997, special Stafford Loan deferment and grace period provisions for reservists called up for active duty service in connection with Operation Desert Shield and Operation Desert Storm. These benefits are:

   - A military deferment for the duration of service in connection with Operation Desert Shield or Operation Desert Storm, even if the length of the deferment exceeds the maximum deferment authorized in sections 428(b)(1)(M)(ii) or 427(a)(2)(C)(ii);

   - A six-month post-deferment grace period following an Operation Desert Shield or Operation Desert Storm military deferment; and

   - A one-time six-month post-deferment grace period following an in-school deferment for a borrower who received a military deferment and who later becomes eligible for an in-school deferment.

8. Periods of service in an eligible internship program (See 34 CFR Section 682.210(g)); or serving in an internship or residency program leading to a degree or certificate awarded by an institution of higher education, a hospital, or a health-care facility that offers postgraduate training. Lenders are now required to grant forbearance to medical interns and residents who have expended their two-year residency deferments before they have completed their intern and residency requirements.

9. A mother who

   - has a preschool-age child,

   - is entering or reentering the work force full time, and

   - is being paid no more than $1 above the minimum wage.

10. A borrower who is seeking, but who is unable to find, full-time employment.

11. A borrower is considered to have an economic hardship if the borrower

    - is receiving payment under a federal or state public assistance program;

    - is working full time but earning an amount that does not exceed the greater of

        - the federal minimum wage, or

        - an amount equal to 100% of the poverty line for a family of two as determined according to section 673(2) of the Community Service Block Grant Act; or

    - meets other regulatory criteria which take into account the borrower’s debt-to-income ratio as a primary factor. Specifically, the borrower may qualify if

        - he or she is working full time and has a federal educational debt burden (including defaulted loans) that is at least 20% of the borrower’s total monthly gross income. The borrower’s income, minus the education debt burden, must be less than 220% of the total monthly gross amount associated with minimum wage rate work or earnings equal to 100% of the poverty line for a family of two.

        - he or she is not working full time and has a total monthly gross income that does not exceed two times either the minimum wage or the poverty line for a family of two and, after deducting the borrower‘s monthly education loan payments, the remaining amount of the borrower’s income does not exceed either the minimum wage or the poverty line.

    - has been granted an economic hardship deferment under either Direct Loans or the Federal Perkins Loan Program for the same period of time for which the FFEL economic hardship deferment is requested.

12. Period for which the borrower is pregnant, caring for his or her newborn child, or caring for his or her adopted child (immediately following adoption). The borrower may neither be attending school nor be gainfully employed and must have been enrolled at least half time at an eligible school at some time during the six months preceding the period of parental leave.

13. A PLUS Loan borrower whose loan was first made and disbursed prior to July 1, 1993 qualifies for a deferment when a dependent student for whom the parent borrowed a PLUS Loan is still dependent and meets one of the following conditions:

    - The student is attending an eligible school full time.

    - The student is attending full time at an institution of higher education or a vocational school that is operated by an agency of the federal government.

    - The student is enrolled in an eligible graduate fellowship program or in an approved rehabilitation training program for the disabled.

    - The student is attending an eligible school half time, and he or she meets **all** of the following conditions:

        Δ The student has an outstanding balance on a Stafford Loan or SLS loan borrowed on or after July 1, 1987 but before July□1, 1993.

        Δ On the date the student signed the promissory note for that loan, he or she had no outstanding balance on another FFEL borrowed before July 1, 1987.

        Δ The student obtains a Stafford Loan or Direct Loan for the same enrollment period for which the parent is applying for a deferment.

OPTIONAL FORBEARANCE

If a borrower (or endorser) is willing but financially unable to make the required payments on an FFEL, he or she may request that the lender grant forbearance. Forbearance means permitting the temporary cessation of payments, allowing an extension of time for making payments, or temporarily accepting smaller payments than were previously scheduled.

The borrower may elect to pay nothing during the forbearance period, or if he or she wishes to make reduced payments, a lender may grant forbearance of principal, interest, or both. Forbearance usually requires a **written agreement** between borrower and lender. When forbearance is granted, the borrower is always responsible for repayment of accrued interest charges. The borrower can pay the interest during the forbearance, or he or she can consent to have it capitalized and pay it later. While lenders do not have to grant forbearance, they are encouraged to do so if such action would likely prevent the borrower from defaulting.

Federal Family Education Loan Program Deferment Provisions

		Federal Stafford Loans (subsidized & unsubsidized) & Federal Supplemental Loans for Students (SLS)			Federal PLUS Loans				Federal Consolidation Loans	
Deferment Condition*	**Time Limit**	**Refinanced and Prior Borrowers[1] of Loans (before 7/1/87**	**Prior Borrowers[2] (7/1/87- 6/30/93)**	**New Borrowers[3]**	**Loans Made Before 8/15/83**	**Refinanced and Prior Borrowers of Loans (before 7/1/87)**	**Prior Borrowers[2] (7/1/87- 6/30/93)**	**New Borrowers[3]**	**Prior Borrowers (before 7/1/93)**	**New Borrowers[4] (after 7/1/93)**
Full-time study	None	Y	Y	Y	Y	Y	Y	Y	Y	Y
Half-time study[5]	None	N	Y	Y	N	N	Y	Y	Y	Y
Graduate fellowship study[6]	None	Y	Y	Y	Y	Y	Y	Y	Y	Y
Rehabilitation training	None	Y	Y	Y	Y	Y	Y	Y	Y	Y
U.S. Armed Forces[7] or Public Health Service, or	3 years	Y	Y	N	Y	N	N	N	N	N
Nat'l Oceanic & Atmospheric Admin. (including Military and Public Health Service)		N	Y	N	N	N	N	N	N	N
Peace Corps	3 years	Y	Y	N	Y	N	N	N	N	N
ACTION	3 years	Y	Y	N	Y	N	N	N	N	N
Temporary total disability (borrower, spouse, or dependent)	3 years	Y	Y	N	Y	Y	Y	N	Y	N
Tax-exempt organization	3 years	Y	Y	N	Y	N	N	N	N	N
Teaching in teacher shortage area	3 years	N	Y	N	N	N	N	N	N	N
Eligible internship or residency program[8]	2 years	Y	Y	N	Y	N	N	N	N	N
Unemployment	2 years	Y	Y	N	Y	Y	Y	N	Y	N
Mother entering work force[9]	1 year	N	Y	N	N	N	N	N	N	N
Inability to secure full-time employment[10]	3 years	N	N	Y	N	N	N	Y	N	Y
Economic hardship[11]	3 years	N	N	Y	N	N	N	Y	N	Y
Parental leave[12]	6 months	Y	Y	N	N	N	N	N	N	N
PLUS borrower/dependent student in-school[13]	.....	N/A	N/A	N/A	Y	Y	Y	N	N/A	N/A

* Y: Deferment Applies N: Deferment Does Not Apply

Footnotes for this chart are provided on pages 10-59 to 10-62.

If two persons are jointly liable for repayment (are co-makers) of a PLUS Loan or Consolidation Loan, the lender may grant forbearance only if **both** persons meet the conditions for a forbearance.

MANDATORY FORBEARANCE

The law specifies that a lender must grant mandatory forbearance of both principal and interest (if requested) to a FFEL borrower (or endorser) in certain circumstances:

◊ If a borrower serving in a medical or dental internship or residency program has already received the maximum two-year internship deferment or is not eligible for such a deferment because he or she is a new borrower, a forbearance must be granted. Forbearance in this instance must be cessation of all payments unless the borrower requests forbearance as an extension of time for making payments or requests a temporary reduction in payments. The forbearance is renewable at 12-month intervals while the borrower remains in the internship/ residency program. The borrower must request forbearance in writing for each 12-month period.

◊ If a borrower's monthly SFA loan payments are collectively equal to or greater than 20% of the borrower's total monthly income, a forbearance must be granted in increments of up to one year each for periods that collectively do not exceed three years.

◊ If a borrower is serving in a national service position for which he or she received a national service education award under the National and Community Service Trust Act of 1993, a forbearance must be granted; the forbearance is renewable in yearly increments during the time the borrower serves in this capacity.

◊ If a borrower is eligible for partial repayment of a loan under the Student Loan Repayment Programs administered by the Department of Defense under 10 U.S.C. 2171, a forbearance must be granted in yearly increments for as long as the borrower remains eligible.

ADMINISTRATIVE FORBEARANCE

Administrative forbearance does not require agreement from a borrower, and a lender may grant it only under specified conditions authorized by law or by the Department in regulations. Upon notifying the borrower, a lender may grant forbearance for payments of interest and principal that are overdue

- ◊ when a deferment is granted and the lender later learns that the borrower did not qualify for the deferment,
- ◊ at the beginning of a deferment period,
- ◊ from the time the borrower entered repayment until the first payment was due,
- ◊ during a period of national military mobilization such as Bosnia and Operation Desert Storm, and
- ◊ during a period prior to a borrower's filing of bankruptcy.

A lender may grant administrative forbearance

- ◊ during a period not to exceed 60 days while the lender is awaiting documentation of a borrower's death or total and permanent disability;
- ◊ for a period of delinquency at the time a loan is sold or transferred, as long as the borrower or endorser is less than 60 days delinquent on the loan at the time of sale or transfer;
- ◊ for periods necessary to determine a borrower's eligibility for loan discharge because of past attendance at a school that later closed or because of false certification of loan eligibility;
- ◊ for periods when a borrower's or endorser's eligibility for bankruptcy discharge is being determined; or
- ◊ for a period of delinquency that may remain after a borrower ends a period of deferment or mandatory forbearance until the next due date is established.

Natural disasters

When the Department notifies loan holders that specific geographical areas have been designated as natural disaster areas, the holders are strongly encouraged to grant administrative forbearance for up to three months to assist borrowers who have been affected by the disaster and who contact the holders and request assistance. A borrower in this situation is not required to sign a forbearance agreement or to submit supporting documentation. For example, victims of Hurricanes Marilyn and Opal were granted administrative forbearance.

MANDATORY ADMINISTRATIVE FORBEARANCE

FFEL program regulations specify that a lender must grant a mandatory administrative forbearance to FFEL borrowers in certain circumstances:

◊ For up to three years when the borrower makes reduced payments because the effect of a variable interest rate change requires the extension of the maximum repayment term (under a standard or graduated repayment schedule), forbearance must be granted.

◊ For up to five years when the borrower makes reduced payments because an income-sensitive repayment schedule requires the extension of the maximum repayment term, forbearance must be granted.

Exceptional circumstances

◊ When the Department notifies the lender that exceptional circumstances (such as a local or national emergency or a military mobilization), a forbearance must be granted. Borrowers subject to a military mobilization must provide supporting documentation as proof.

INTEREST ACCRUING DURING DEFERMENT AND FORBEARANCE

Interest continues to accrue on all loans during deferment periods. Interest also accrues on all FFELs during forbearance. Unless a borrower qualifies for interest subsidy during deferment, he or she is responsible for paying this interest and may do so during deferment or forbearance. Or, a lender may agree to capitalize the interest (add it to loan principal) when repayment of the principal resumes.

Interest that accrues during a deferment or forbearance may be capitalized no more frequently than quarterly and when repayment resumes. Procedures for capitalization of interest under different deferments may vary. The borrower should be instructed to read his or her promissory note and to check with the lender or guaranty agency for details on capitalization of interest. If a borrower agrees to pay interest during deferment but fails to do so, the borrower will be considered delinquent.

section 6 Loan Discharge

DEATH AND PERMANENT DISABILITY DISCHARGES

If a FFEL borrower dies or becomes totally and permanently disabled, the borrower's obligation to repay the loan is canceled, and the loan holder is not permitted to collect the loan from an endorser or from the borrower's estate. Certification of total and permanent disability from a qualified physician is required for loan cancellation. A Federal PLUS Loan borrower's debt will be canceled if the student for whom the parent borrowed the PLUS Loan dies. An endorser of a loan canceled because of death or total disability is not obligated to repay the loan. However, if a couple consolidates loans jointly, the death or total disability of one of the borrowers does not relieve the other of the repayment responsibility. If both borrowers have a condition (not necessarily the same one) under which they qualify for loan cancellation, the loan may be canceled.

BANKRUPTCY DISCHARGE

Bankruptcy—Dear Colleague Letter GEN-95-40, dated September 1995

A borrower may also have his or her loan discharged in bankruptcy. A federal student loan is not dischargeable in bankruptcy unless

- ◊ the loan has been in repayment for at least 7 years, excluding any periods of deferment or forbearance ("suspended repayment") or
- ◊ the bankruptcy court has determined that repayment of the loan would cause an undue hardship to the debtor and his or her dependents.

OTHER LOAN CANCELLATION PROVISIONS

Closed school discharge

A borrower's obligation to repay a FFEL received on or after January 1, 1986 will be canceled if the student (the student borrower or the student on whose behalf a parent obtained a PLUS Loan) was unable to complete his or her program of study because the school closed or if the student withdrew from the school not more than 90 days before the school closed. This 90-day period may be extended on a case-by-case basis if an extension is deemed appropriate by the Department. For additional information on this discharge provision, see 34 CFR 682.402(d).

False certification of ability to benefit—Dear Colleague Letter GEN-95-42, dated September 1995

A borrower's obligation to repay may be canceled if the school

◊ falsely certified the student's loan eligibility by certifying that he or she had the ability to benefit from its training or

◊ signed the borrower's name without borrower authorization on the loan application, promissory note, loan check, or electronic funds transfer (EFT) authorization.

If either of the above conditions occurs, the loan may be discharged under this provision.

Forgery

In the case of a borrower requesting a discharge because the school signed his or her name on the loan application or promissory note, the borrower must state that the signature on either of those documents was not his or her own. The borrower also must provide five different signature specimens, two of which must be from no earlier or later than one year before or after the date of the contested signature. (These signature specimens are also required under the condition described in the next paragraph, unauthorized signature for electronic funds transfer.)

Unauthorized signature

In the case of a borrower's claiming false certification based on unauthorized signature on a loan check or an EFT authorization, the borrower must certify that he or she did not endorse the loan check or sign the EFT authorization and that he or she did not authorize the school to do so. The borrower must state that he or she did not receive the proceeds of the contested disbursement either through actual delivery of the loan funds or by a credit to the school's account.

Interest and collection fees, as well as loan principal, will be discharged if cancellation is granted. The Department will attempt to collect from the school the loan amount discharged, including any refund owed the student. For additional information on false certification, see 34 CFR 682.402(e).

A closed school or false certification discharge also relieves any endorser of the obligation to repay the loan.

EFFECT ON A BORROWER'S SFA ELIGIBILITY

An applicant who applies for SFA funds and who included a defaulted federal student loan that is **nondischargeable** in his or her bankruptcy schedules will be considered ineligible for further federal student aid until he or she resolves the default. Such a borrower can negotiate a satisfactory repayment arrangement with the holder of the debt. The holder can set the terms of the satisfactory repayment arrangement.

If default occurred prior to the borrower's bankruptcy filing and the loan was discharged in the bankruptcy, the applicant is eligible for further SFA funds. Because the borrower is no longer obligated to repay the debt, he or she does not have to establish satisfactory repayment arrangements.

The Department no longer requires as a condition for SFA eligibility reaffirmation of a loan that was discharged in bankruptcy or for total and permanent disability. However, a borrower whose loan debt was canceled due to total and permanent disability and who later applies for a FFEL must

◊ provide a physician's certification that the borrower is able to engage in "substantial gainful activity" such as working or attending school, and

◊ sign a statement affirming that the new loan for which the borrower is applying cannot be canceled in the future based on present impairment (unless the borrower's condition substantially deteriorates).

If a borrower's defaulted loans are discharged under the false certification or closed-school provisions, the borrower (if otherwise eligible) regains eligibility for SFA funds. In addition, any adverse credit history will be deleted from credit-reporting agencies' records. The period of study the student was unable to complete because of a school's closing will not be counted in calculating the student's eligibility for additional student financial assistance.

There are some defaulted loans on which the Department or the appropriate guaranty agency has suspended collection activity after several unsuccessful attempts to collect these loans. If a borrower of such a loan wishes to borrow again under the FFEL Program, he or she must reaffirm the previous loan amount. In addition, the borrower must make satisfactory repayment arrangements on the defaulted debt.

Reaffirmation is the legal acknowledgment of the loan. Legally acknowledging the loan may require the borrower to

◊ sign a new promissory note or repayment schedule for the loan or

◊ make a payment on the loan.

When loans are reaffirmed, they count toward the borrower's aggregate loan limits.

PAYMENTS MADE AFTER DISCHARGE

If a lender receives payments on a borrower's student loan account after the guaranty agency notifies the lender of a discharge (on the basis of total and permanent disability, death, bankruptcy, false certification, or school closing), all of these payments must be returned to the sender. At the same time, the lender must notify the borrower that there is no further loan obligation.

REPAYMENT BY THE U.S. DEPARTMENT OF DEFENSE

Currently, if a student borrower decides to serve as an enlisted person in certain specialties in the U.S. Army, the Army Reserves, the Army National Guard, or the Air National Guard, the Department of Defense (as an enlistment incentive) will repay a portion of his or her loan. For more information, a student should contact his or her local Army or Air National Guard recruiting office. This is a recruitment program and does not pertain to an individual's prior service. **This program is not a FFEL cancellation provision.**

Loan repayment under this program is made directly to the lender and is not considered financial aid. Such repayment is considered as student income when loan eligibility is calculated.

section 7

Delinquency and Default

Most borrowers repay their loans on time, but some do fall behind on their payments for a variety of reasons. A financial aid administrator should advise a student to maintain contact with the lender or loan servicer to avoid delinquency and default if the borrower has repayment problems.

When a scheduled payment on a Federal Stafford Loan, Federal Supplemental Loans for Students (SLS) loan, or Federal PLUS Loan is not made on time, the loan becomes delinquent. To prevent defaults, a lender is required to repeatedly attempt to contact a delinquent borrower by phone and mail, to use skip-tracing techniques to locate the borrower if his or her whereabouts become unknown, and to request the guaranty agency's assistance to resolve repayment problems. If a borrower is late in making a payment, the lender may require the borrower to pay a late charge. The borrower will also be required to pay collection costs, such as collection agency fees, attorney's fees and court costs, if required in the borrower's promissory note.

For loans that enter delinquency on or after April 7, 1986, default occurs when a loan repayable in monthly installments becomes 180 days delinquent. For a loan repayable in less frequent installments, default occurs when the loan becomes 240 days delinquent.

CONSEQUENCES OF DEFAULT

If the borrower's delinquency persists, the lender must accelerate the loan; that is, the lender must demand—using a "final demand" letter—the entire balance of the loan in one payment. The lender must also file a default claim with the guaranty agency on a seriously delinquent account that is more than 180 days delinquent (or 240 days delinquent for a loan repayable in installments less frequent than monthly). The guaranty agency reviews the lender's collection efforts before paying the lender's default claim. If the guaranty agency pays the default claim, the agency must continue collection efforts. Before reporting the default to a national credit bureau or assessing collection costs, the guaranty agency will provide the borrower with

- ◊ a written notice of its proposed actions,
- ◊ an opportunity to enter into a repayment agreement, and
- ◊ an opportunity for an administrative review of the status of the loan.

Credit bureau notification

Once a guaranty agency notifies a credit bureau of a borrower's default, the credit bureau may provide inquirers with that information for up to seven years from the date the loan is first reported as a default; for up to seven years from the date the guaranty agency pays the default claim; or, for a borrower who enters repayment after default and again allows the loan to default, up to seven years from the date the loan enters default the second time.

Required loan collection efforts— 34CFR 682.411

Collection efforts by the guaranty agency include a series of letters and phone calls to persuade the borrower to enter repayment on the defaulted loan and may also include mandatory assessment of collection costs, garnishing up to 10% of the defaulter's disposable pay, withholding ("offsetting") part or all of a defaulter's federal and/or state income tax refund and other payments that the federal government might otherwise make to the borrower, and filing suit against the borrower.

A guaranty agency must provide counseling and consumer information to a borrower by the 10th working day after the agency receives a request from the lender for preclaims assistance (preclaims assistance is the collection assistance the guarantor makes available to the lender no later than the 90th day of delinquency). As part of the counseling, the guaranty agency must inform the borrower of preventive measures to avoid default, such as income-sensitive or graduated repayment, deferment, forbearance, and consolidation of delinquent loans under the FFEL Program or the Federal Direct Consolidation Loan Program.

Limit on collection costs when defaulted loan is consolidated— 34CFR 682.401

A guaranty agency may add collection costs in an amount not to exceed 18.5% of the outstanding principal and interest to a defaulted FFEL that is included in a Federal Consolidation Loan or Direct Consolidation Loan.

A guaranty agency must initiate administrative wage garnishment action not later than 225 days after it pays a default claim. If the borrower has insufficient income to garnish but does have assets from which the debt can be satisfied, the borrower's loan account must be assigned to the U.S. Department of Education for litigation.

All guaranty agency administrative wage garnishments must be performed in accordance with the procedures described in Section 488A of the Higher Education Act of 1965 (HEA), as amended, 34 CFR 682.410(b)(10), and specific guidance the Department has issued. If the defaulter is sued, wage garnishment may be included in the court's ruling. The Higher Education Technical Amendments of 1991 (P.L. 102-26) provided for continuation of garnishment, offset action, or a lawsuit regardless of any federal or state statutes of limitation that might otherwise have applied to such collection efforts. The Higher Education Amendments of 1992 permanently abolished statutes of limitation that might otherwise have applied. The abolition applies to all pending cases and outstanding debts, as well as to current cases.

Ineligibility for additional SFA funds

A student with a defaulted loan is rendered ineligible for all Student Financial Assistance (SFA) funds at the time the default occurs (that is, once the loan reaches 180 days of delinquency for loans repayable monthly and 240 days for loans repayable less frequently). Even if a defaulted borrower's debt has been determined to be totally uncollectible and was closed out (written off) with the principal amount being reported to the Internal Revenue Service as taxable income, the borrower is still considered to be in default and is ineligible for federal student aid.

If a borrower who is in default on an SFA loan held by the Department or by a guaranty agency applies for federal student aid, the resulting *Student Aid Report* (SAR) will indicate that the borrower is in default and, thus, not eligible for aid under the SFA Programs.

Ineligibility for deferment

Once a guaranty agency pays a lender's default claim, the borrower is ineligible for any type of deferment on the loan, and he or she will not be able to receive any federal financial aid until the obligation is discharged or until the borrower has made satisfactory payment arrangements with the lender, the guarantor, or the Department. A lender or guarantor may grant forbearance to a borrower whose loan is delinquent or in default. Even after a borrower makes satisfactory repayment arrangements to repay the defaulted loan in order to regain eligibility for SFA funds, the borrower must continue to make scheduled payments on the defaulted loan. If the borrower is unable to do so while attending school, he or she should request forbearance on the loan.

If, after a borrower has defaulted, he or she receives a loan discharge under the bankruptcy, total and permanent disability, closed school, or false certification discharge provision, the loan is no longer considered to be in default, and the borrower is eligible for further federal student aid.

REINSTATEMENT OF ELIGIBILITY AFTER DEFAULT

If a borrower and guaranty agency reach a compromise agreement to settle the debt for less than the total amount due, the borrower may be eligible for additional federal student aid once the compromised amount of the debt is paid. If the borrower chooses to reaffirm his or her defaulted loan obligation and makes satisfactory payment arrangements to repay the debt (six on-time, reasonable and affordable, consecutive, voluntary monthly payments), he or she may regain eligibility for SFA funds. A student who resolves a default by consolidating a defaulted FFEL also regains eligibility once the defaulted loan has been paid in full by the Consolidation Loan or Direct Consolidation Loan. See Section 8 of this chapter for more information on consolidating defaulted FFELs.

A guaranty agency must inform a defaulted borrower who has made six payments as described above of the possibility of loan rehabilitation (after the borrower makes six more payments). Reinstatement of eligibility does not bring a loan out of default, and the borrower is not eligible for deferment; however, loan rehabilitation accomplishes both.

If a student regains eligibility during an enrollment period (if the sixth payment under a satisfactory repayment arrangement is made after the start of an enrollment period, for example), the student regains eligibility for the entire period of enrollment (usually an academic year) in which he or she regained eligibility status.

If a borrower has made satisfactory repayment arrangements to repay a defaulted loan, his or her SAR will indicate that the borrower is eligible but will include a warning that if scheduled payments are not made on the loan, future federal student aid will be denied. The financial aid administrator may reconcile the SAR with official paperwork from the lender stating that the default has been satisfied. This documentation must be kept in the student's file. The financial aid administrator may then determine the student's eligibility for a loan.

LOAN REHABILITATION

Loan rehabilitation is available to a borrower who has defaulted on a FFEL and who meets certain conditions. The law requires a guaranty agency to provide a loan rehabilitation program that will allow a defaulter the opportunity to make 12 "reasonable and affordable" consecutive monthly payments on a defaulted FFEL. The Department expects each guaranty agency to determine what constitutes a reasonable and affordable payment amount on a case-by-case basis, after examining the borrower's financial information. When establishing a reasonable and affordable payment amount, a guarantor may not require a set minimum monthly payment amount. A guarantor is required to document its determination of the appropriate payment amount only if the payment is less than $50. Each borrower must receive a written statement specifying what the reasonable and affordable payment amount is as determined by the agency and must be granted an opportunity to object to the terms.

After a borrower makes 12 consecutive monthly payments (which may include the six consecutive monthly payments necessary to regain SFA eligibility) on the defaulted loan, the guaranty agency (or the Department, if the Department is holding the loan) will decide if the borrower is a good candidate for loan rehabilitation. If so, the loan holder will try to sell the loan to an eligible FFEL lender. A borrower who has made more than 12 consecutive, voluntary monthly payments at the time he or she requests rehabilitation is immediately eligible for consideration, if those payments were determined to be reasonable and affordable and if they were made on time. Payments secured from a borrower on an involuntary basis, through means such as wage garnishment, cannot be counted towards the borrower's required 12 consecutive monthly payments.

Once eligible for rehabilitation, the debtor must continue to make payments while the guaranty agency transfers the loan to a lender. Because of loan processing procedures, the borrower may have to submit more than 12 payments before the loan is rehabilitated.

Once a loan is rehabilitated, the borrower regains eligibility for any remaining deferment benefits. For example, if a borrower who has a loan that is eligible for up to three years of unemployment deferment receives two years of this deferment, later defaults, then rehabilitates the loan, he or she is eligible for one more year (not another full three) of unemployment deferment after rehabilitation.

The holder of the rehabilitated loan must promptly notify at least one credit bureau of the loan's rehabilitated status. The notification of credit bureaus is an important benefit to borrowers, because the borrower's record of default is removed from his or her credit history. A borrower with questions about loan rehabilitation should contact the agency holding the defaulted loan.

A borrower who wishes to rehabilitate or consolidate a loan on which a court judgment has been secured must sign a new promissory note prior to the sale of the loan to an eligible lender. (The Department has previously provided guidance stating that a guaranty agency may not exclude borrowers with judgment accounts from consolidating their defaulted loans.) Because a judgment is not always repaid under the original terms and conditions of the FFEL promissory note, the judgment is not viewed as an eligible FFEL. Therefore, rehabilitation or consolidation of a loan on which a court judgment has been secured requires the guaranty agency to vacate the judgment and to convert the judgment debt into an eligible FFEL. This conversion takes place when the borrower makes a new promise to repay the debt by signing a FFEL promissory note on the amount due on the judgment.

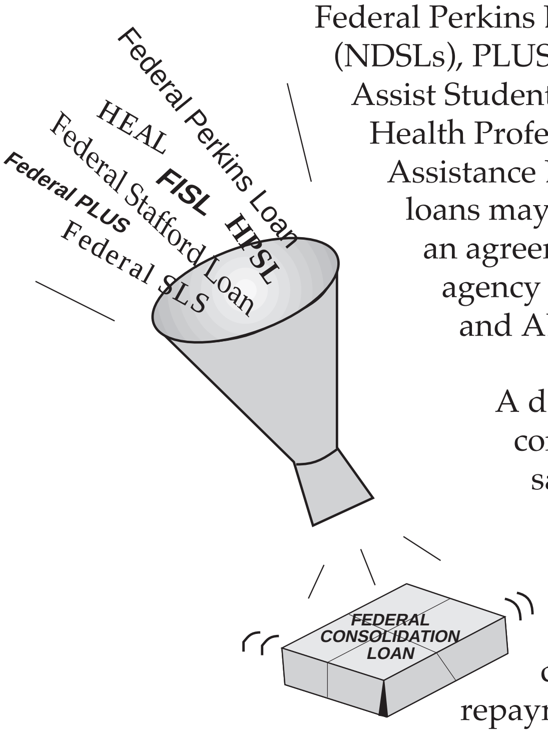
section 8

Consolidation Loans

Schools must present refinancing and consolidation options to student borrowers during exit counseling. Once a borrower leaves school, he or she may consider consolidation as an option to make repayment easier. The student must contact his or her lender(s) to request these options, and any agreement to refinance or consolidate loans is between the borrower and lender. A student should keep in mind that loan consolidation does not increase Federal Stafford Loan limits; aggregate loan limits must include any portion of a borrower's Federal Consolidation Loan used to repay a Stafford Loan.

FEDERAL CONSOLIDATION LOANS

Loan consolidation enables a borrower with several loans to obtain one loan with one interest rate and repayment schedule. Stafford Loans (both subsidized and unsubsidized), Federal Insured Student Loans (FISLs), Federal Perkins Loans, National Direct Student Loans (NDSLs), PLUS Loans to students, Auxiliary Loans to Assist Students (ALAS), parent PLUS Loans, SLS loans, Health Professions Student Loans, Health Education Assistance Loans, and Nursing Student Loan Program loans may be consolidated only by lenders that have an agreement with the Department or a guaranty agency for that purpose. (PLUS Loans to students and ALAS are former names of the SLS Program.)



A defaulted loan may be included in a consolidation loan if the borrower has made satisfactory repayment arrangements with the holder to repay the loan. Three voluntary, on-time, consecutive monthly payments under a "satisfactory repayment arrangement" are required to consolidate a defaulted loan. Satisfactory repayment arrangements are discussed in Section 7 of this chapter. A borrower can also consolidate a defaulted loan without having to make three required payments, if he or she agrees to repay the Consolidation Loan under an income-sensitive repayment plan.

Loan consolidation allows a lender to pay off the existing loans and make one Consolidation Loan to replace them. Consolidation may include, in addition to unpaid principal and interest on the underlying loans being consolidated, late charges and collection costs applied to those loans. A guaranty agency (or the Department, if it is holding the loan) may assess the borrower collection charges or late fees up to 18.5% of the principal and interest that is outstanding at the time of loan payoff certification on the defaulted FFEL that is to be included in a Federal Consolidation Loan.

A lender must offer standard, graduated, and income-sensitive repayment options on Consolidation Loans.

APPLYING FOR A CONSOLIDATION LOAN

Generally, a borrower submits a Consolidation Loan application to a lender holding at least one of the loans to be consolidated. If none of those lenders agrees to consolidation, the borrower may apply to any other lender participating in the Consolidation Loan Program.

The borrower must give the lender all relevant information concerning his or her existing loans. A borrower may add to an existing Consolidation Loan eligible loans received before the date of consolidation, if the loans are added within 180 days after the date the Consolidation Loan is made.

BORROWER ELIGIBILITY FOR A FEDERAL CONSOLIDATION LOAN

To be eligible for a Consolidation Loan, a borrower

◊ must be in the grace period or in repayment status on all loans being consolidated;

◊ if in default,[1]

- must have made satisfactory arrangements to repay the defaulted loan and must have made at least three voluntary, on-time, consecutive monthly payments or

- must agree to repay the Consolidation Loan under the income-sensitive repayment plan (with no payments required prior to consolidation);

[1] Note that a borrower who wishes to consolidate a loan on which a court judgment has been secured must sign a new promissory note for that loan prior to consolidating it. See page 10-75 for more information.

◊ must not have another Consolidation Loan application pending;

◊ must agree to notify the loan holder of any address changes; and

◊ must certify that the lender holds at least one of the borrower's outstanding loans that are being consolidated or that the borrower has unsuccessfully sought a Consolidation Loan from the holders of the outstanding loans and was unable to secure one.

There is no longer a minimum debt level a borrower must have to qualify for consolidation.

Married couple consolidating loans

A married couple may consolidate individual loans if both spouses agree to be held jointly and separately liable for repayment of the Consolidation Loan regardless of the amount of their individual debts and regardless of any future change in marital status. If one spouse dies, becomes totally and permanently disabled, has collection of his or her loan obligation stayed by a bankruptcy filing, or has that obligation discharged in bankruptcy, the other borrower remains obligated to repay the loan.

Both spouses must meet the eligibility requirements to qualify for a Consolidation Loan. Only one spouse is required to certify that the lender holds at least one of his or her outstanding loans that are being consolidated or that he or she has unsuccessfully sought a Consolidation Loan from the holders of the outstanding loans and was unable to secure one.

Joint consolidators are held jointly and separately liable for the Consolidation Loan. To receive a deferment, forbearance, or discharge, both borrowers must meet the qualifying conditions, unless a discharge is due to school closure or false certification. In that case, only one borrower must qualify; however, only the portion of the Consolidation Loan affected by the school closure or false certification can be discharged, unless the borrower's spouse qualifies for some type of discharge.

Federal Direct Consolidation Loans

If a borrower is unable to obtain a Consolidation Loan from a lender eligible to make such loans, the borrower may apply through the U.S. Department of Education for a Federal **Direct** Consolidation Loan under the William D. Ford Federal Direct Loan Program. The borrower must certify that he or she has been unable to obtain from an eligible lender a Consolidation Loan or a Consolidation Loan with income-sensitive repayment terms acceptable to the borrower. See Chapter 11 for more information on Federal Direct Consolidation Loans. The eligibility criteria for Federal Direct Consolidation Loans differ from the criteria for Federal Consolidation Loans.

Generally, the first payment on a Consolidation Loan is due within 60 days after consolidation. (The repayment period begins on the day the Consolidation Loan is disbursed.) There are a number of repayment options, including the graduated repayment and income-sensitive repayment options mentioned previously. The repayment period varies from 10 to 30 years, depending on the amount consolidated and on other student loans the borrower may have. If the amount to be consolidated is less than $7,500, for example, the repayment period must not exceed 10 years.

Interest rate

The interest rate for a Consolidation Loan is the weighted average of the interest rates of the loans consolidated (rounded to the nearest whole percent). When determining the weighted average of interest rates, the interest rate used for each loan is that which is in effect for it at the time the loan is paid in full through consolidation.

There are no insurance premiums or other fees for loan consolidation.

Interest subsidy

A borrower is entitled to an interest subsidy during deferment **only** when the Consolidation Loan is made up exclusively of subsidized Stafford Loans. For information on deferment provisions for Consolidation Loans, see Section 5 of this Chapter.

A borrower interested in consolidation should understand that consolidating Perkins Loans (or NDSLs) will result in

◊ a higher interest rate than he or she is paying on those loans,

◊ less deferment provisions than he or she has available under the Perkins Loan (or NDSL) Program, and

◊ the loss of Perkins Loan (or NDSL) cancellation provisions on the loans being consolidated.

The student should also understand that consolidating Stafford Loans and SLS loans may result in higher interest rates than he or she was paying on those loans. However, because Consolidation Loans may have repayment periods as long as 30 years, the borrower’s monthly repayment amount may be reduced.

If a lender received a Consolidation Loan application before January 1, 1993, the borrower is responsible for the interest on the loan during periods of deferment. If a lender received a Consolidation Loan application between January 1, 1993 and August 10, 1993, interest that accrues during periods of deferment is paid by the federal government. For loan applications received on or after August 10, 1993, the borrower is entitled to an interest subsidy during deferment **only** when the Consolidation Loan is made up exclusively of subsidized Stafford Loans.

For information on deferment provisions of Consolidation Loans, see the deferment chart on page 10-63.

section 9 Counseling Students

Both entrance and exit counseling are requirements of the Federal Family Education Loan (FFEL) Program. Exit counseling is also authorized under the law and is required to be in-person counseling. A school must keep documentation in each student borrower's file showing that both entrance and exit counseling were provided to him or her. Effective loan counseling is an ongoing process, and reinforcement of points made during the entrance interview is advisable whenever a financial aid administrator meets with a student to discuss his or her loans. For example, the financial aid administrator has an opportunity during each delivery of loan proceeds to counsel students concerning satisfactory academic progress, constraints on aid, the obligation to notify his or her lender about a change in address, and so on. If loan counseling is ongoing, the exit interview is simply a review of information conveyed during the course of the student's program of study and a means of presenting additional material to prepare the student for repaying loans.

Dynamic presentation of material at both entrance and exit interviews—using charts, handouts, audiovisual materials, and question-and-answer sessions—can convey the financial aid administrator's message with greatest effect. The financial aid administrator may wish to contact guaranty agencies, lenders, and other organizations associated with postsecondary education to see what videos, pamphlets, and other materials are available to supplement the school's counseling.

The illustration on page 10-91 summarizes information to be covered during the entrance and exit interviews or counseling sessions. The core items should be covered as part of both entrance and exit counseling.

ENTRANCE COUNSELING

A school must conduct entrance counseling before releasing the first disbursement of the first Federal Stafford Loan made to a borrower at the school. The counseling must be conducted in person, by audiovisual presentation, or by computer-assisted technology, and a person knowledgeable about Student Financial Assistance (SFA) Programs must be available for questions shortly after the counseling session. For a borrower who is receiving his or her first loan at a school and who is involved in the school's junior-year-abroad program or other off-campus program, the school must provide entrance counseling information by mail before releasing loan proceeds. A correspondence school must also provide the information by mail before releasing loan proceeds.

Recognizing that each school and each student's situation is different, the Department provides the following suggestions for presentation of the required information. The emphasis may be shifted, but all the points made below should be covered during entrance counseling:

◊ **An overview of all possible sources of aid is important**, with an emphasis on the constraints on student aid and a discussion of "reasonable expenses" in the context of grants and loans. A school's Program Participation Agreement (PPA) requires it to provide, in addition to state grant assistance information, a source of information for programs in the student's home state. Information on other loan sources, such as health professions loans, also should be provided.

◊ **Terms and conditions of various loan programs should be reviewed.** In addition to providing basic information on loan limits, loan fees, and interest rates, a counselor should explain terms such as deferment, forbearance, and cancellation. The counselor might also cover available repayment options, such as loan consolidation and refinancing, at this point. (See Section 8 of this chapter for a brief discussion of loan consolidation and refinancing.)

◊ **The obligations of loan repayment should be emphasized.** You should advise the student to read carefully the loan application, the disclosure statement, and the promissory note with the borrower's rights and responsibilities before signing any of those documents. Often a student loan is the borrower's first experience in obtaining a loan of any kind, and a counselor should clearly explain basic loan terminology to ensure that a borrower is aware of his or her obligations. The counselor should define terms such as "loan servicer" and should explain the process of selling loans to other lenders or to "secondary markets." Lenders and guaranty agencies provide explanations about these and other terms in the material they make available to students and schools. (A loan servicer is a corporation that administers and collects loan payments for the loan holder. A secondary market is a lender or a private or public agency that specializes in buying student loans.)

◊ **The obligations regarding repayment should be thoroughly covered**, and a counselor should explain that the **exact** repayment schedule will not be provided until loan repayment begins. Although the disclosure statement and the promissory note contain the total dollar amount of the loan, including interest and fees, they do not necessarily specify the amount of each payment or the frequency with which payments will be made. The counselor should remind the student that certain fees will be subtracted from the loan amount before the loan is disbursed but that repayment of the **full** loan amount is required. The counselor should emphasize that the borrower is required to repay the full loan even if he or she does not complete the program or even if the program doesn't meet the borrower's expectations. This is one point at which the school's refund policy could be explained in detail so that a student knows that if he or she leaves school (for whatever reason), a portion of the loan disbursement may be returned to the lender.

◊ **It is the student's obligation to keep the lender informed about changes in his or her status, enrollment, or financial condition.** The student or parent borrower is required to inform the lender if the student

- fails to enroll in school for the period for which the loan was intended,
- changes schools,
- changes his or her name or address (including changes in the permanent address while in school),
- graduates or withdraws from school,
- wishes to apply for a deferment,
- wishes to request forbearance, or
- is having difficulty repaying the loan.

◊ **It is the student's obligation to maintain satisfactory academic progress.** See Chapter 2 for more information.

◊ **Personal financial planning should be emphasized**. A student should ask himself or herself questions like "Can I handle Work-Study and still keep my grades up?" "Can I afford loan payments when I graduate if I major in _____?" Financial planning forces the student to consider whether he or she is ready to handle the loan burden. If not presented previously, charts should be shown illustrating the monthly repayment for various loan amounts. The counselor should explain the consequences of multiple borrowing, along with general information on average loan indebtedness. The student also should consider total loan indebtedness as the result of borrowing under more than one loan program over a long period of time—for example, as an undergraduate and a graduate student. At this point, information on loan consolidation—such as considerations for long-range financial planning—might be covered.

◊ **A student should keep a copy of each document concerning education loans and any other student aid received.** This would be a good time, if the financial aid administrator has the resources, to provide a student with a folder or other aids to encourage him or her to keep all financial aid materials in one place. The student should keep, at a minimum, the following records:

- a copy of the loan application,
- a copy of the promissory note and the loan disclosure statement,
- a record of any loan checks received,
- the loan repayment schedule, sent to the borrower when repayment begins,
- a copy of any requests for deferment or forbearance, and of any other correspondence with the lender,
- a record of payments made by the borrower—including canceled checks and money order receipts—and
- the most recent name and address of the lender, the loan servicer, and the guarantor of the loan.

◊ **Borrower rights and responsibilities should be explained.** This could be a part of the discussion on obligations of loan repayment or could be treated separately. While many borrower rights and responsibilities will be covered in the course of the presentation, it's important to review them as a unit at some point.

The borrower has a right to

- written information on loan obligations, including loan consolidation and information on borrower rights and responsibilities;

- an explanation of default and its consequences;
- a copy of the promissory note and return of the note when the loan is paid in full;
- before repayment, information on interest rates, fees, the balance owed on loans, and a loan repayment schedule;
- notification, if the borrower is in the grace period or in repayment, no later than 45 days after a lender assigns, sells, or transfers his or her Stafford Loan or Federal PLUS Loan to another lender, if the result is a change in the party (new holder or servicer of the loan) to whom payments must be sent. The borrower must be provided the following information:

  ∆ the identity of the purchasing lender and the name and address of the new lender or servicer,

  ∆ notice of the loan assignment, and

  ∆ the telephone number of both the purchasing and selling lenders and servicers.

  Notification of this change must be made either jointly or separately by the purchasing and selling lenders. If a borrower is in a grace period or in repayment, the last school the borrower attended may request the following from the guaranty agency before the beginning of the repayment period: notification of the sale, transfer, or assignment of the loan to another holder, and the address and telephone number of the new loan holder.
- federal interest benefits, if qualified;
- a grace period, if applicable, and an explanation of what that means;
- prepayment of the loan without penalty;
- deferment, if the borrower qualifies; and
- request forbearance (but the lender may not grant it).

The financial aid administrator must provide current and prospective students with the completion and graduation rates of full-time undergraduate students enrolled in certificate or degree programs at your school.

The borrower is required to

- repay the loan according to the repayment schedule and notify the lender of anything that affects ability to repay or eligibility for deferment or cancellation;
- notify the lender if he or she graduates, withdraws from school, drops below half-time status, transfers to another school, or changes name, address, or Social Security Number;
- notify the lender if he or she fails to enroll for the period covered by the loan;
- notify the school of a change of address; and
- attend an exit interview before leaving school.

◊ **Emphasize to students the consequences of delinquency and default.** A counselor should stress that once a student is in default, there is little that can be negotiated with regard to repayment. For example, a defaulter is no longer eligible for any deferment provisions, even if he or she would otherwise qualify. Defaulters often find that repayment schedules for loans that have been accelerated are more stringent than the original repayment schedule.

Again, please note that a person knowledgeable of SFA Programs must be available to answer a student's questions—either in person or on the telephone—immediately or shortly after the entrance counseling session.

EXIT COUNSELING

A school must conduct exit counseling in person individually or in groups shortly before a borrower ceases at-least-half-time study. One of a borrower's obligations is to attend an exit counseling session. If the borrower drops out without notifying the school, the financial aid administrator must mail exit counseling material to the borrower at his or her last known address within 30 days after learning that the borrower has left school or failed to attend an exit counseling session. For correspondence programs, the financial aid administrator must send the borrower written counseling materials within 30 days after the borrower completes the program. The financial aid administrator must request the return to the school of information required under the Higher Education Amendments of 1992.

A school mailing these exit materials is not required to use certified mail with a return receipt requested. The school must, however, maintain in each borrower's file documentation verifying the school's compliance with the counseling requirements of 34 CFR 682.604(g).

If a borrower fails to provide the information, the school is not required to take any further action. As with entrance counseling, if the school is complying with the required default reduction measures, testing of information presented must be part of the exit counseling process.

During exit counseling, the financial aid administrator must obtain the borrower's expected permanent address after leaving school, the name and address of the borrower's expected employer, and the address of the borrower's next of kin. A schools must correct its records to reflect any changes in a borrower's name, address, Social Security Number, or references, and it must obtain the borrower's current driver's license number. Within 60 days after the exit interview, the financial aid administrator must provide the guarantor (indicated in the borrower's student aid records) with any updated information he or she receives from the borrower.

As the entrance and exit counseling illustration on page 10-91 indicates, much of the material presented at the entrance counseling session will again be presented during exit counseling. The emphasis for exit counseling shifts, however, to loan repayment obligations and debt-management strategies. At the exit counseling session, the following points should be stressed:

- ◊ **Financial planning for loan repayment is essential to debt management.** A counselor should stress the importance of developing a realistic budget based on the student's minimum salary requirements. He or she should also emphasize that the loan payment is a fixed cost, like rent or utilities. Data on average anticipated monthly payments are useful, especially if students have not yet received loan repayment schedules.

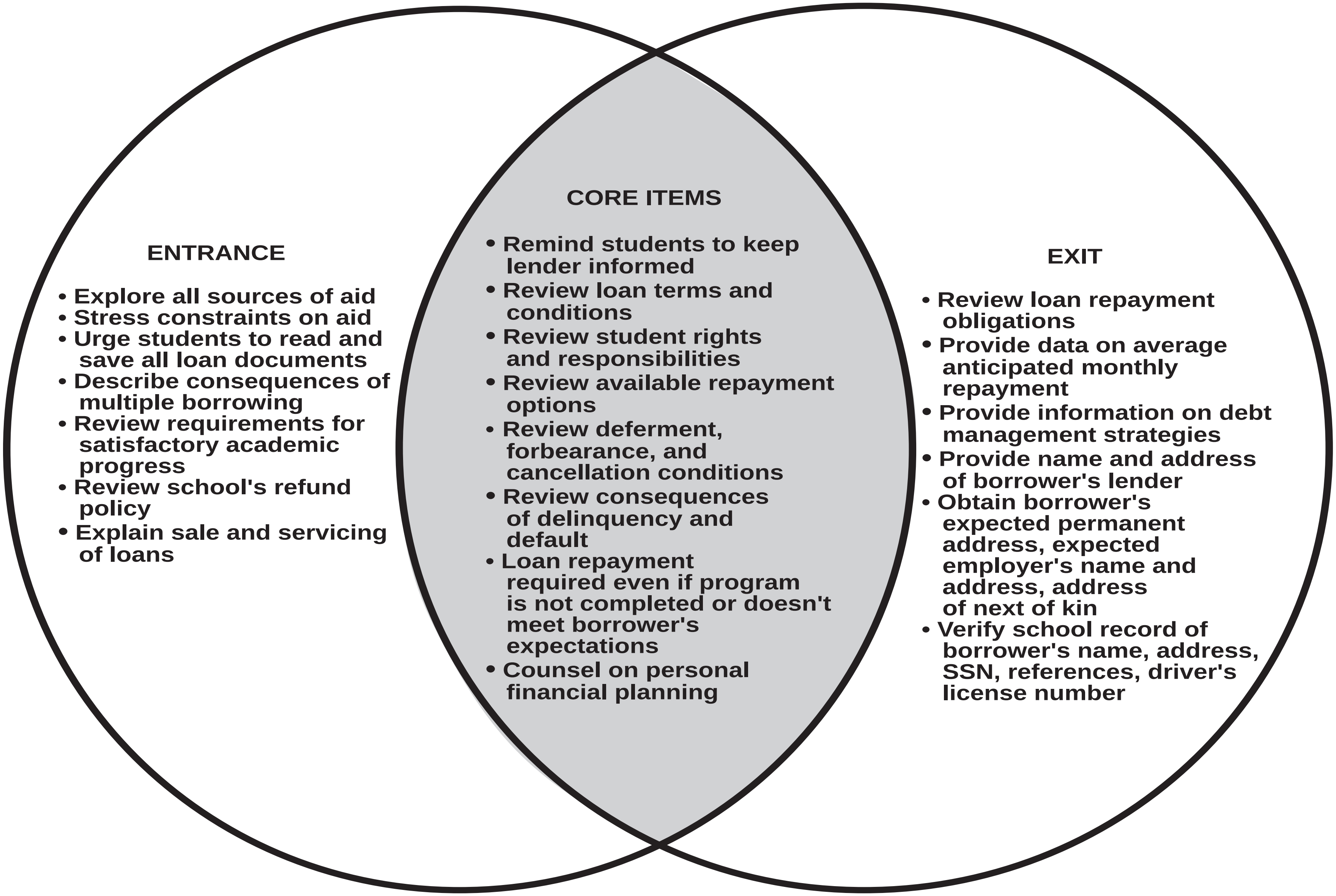
- ◊ **Loan repayment obligations should be reviewed**, with emphasis on keeping the lender informed if the borrower is having difficulty in making loan payments. A counselor should stress the importance of communicating with the lender in writing and of keeping copies of all communication with the lender. The counselor should remind a borrower that he or she must make payments on his or her loans even if the borrower does not receive a payment booklet or a billing notice. Lenders send payment coupons or billing statements as a convenience for the borrower. Not receiving them does **not** relieve the borrower or his or her obligation to make payments.

◊ **Loan refinancing and loan consolidation should be explained** again, and a student should be referred to his or her lender for more detailed information about these options. Section 8 provides basic information on refinancing and loan consolidation.

◊ **Review deferment, forbearance, and cancellation provisions** of Stafford and PLUS Programs. A counselor should remind students that these provisions require action on their part; a borrower must apply to the lender for deferment, forbearance, or loan cancellation, by using appropriate forms the lender provides. The counselor should emphasize that while waiting for approval of the request for any of these conditions, the borrower should continue to make payments on the loan to avoid delinquency and default.

◊ **Emphasize the consequences of delinquency and default, and the importance of keeping the lender informed** of changes in status, in address, or of problems when the borrower is having difficulty making loan payments.

◊ **Obtain, from each borrower, a permanent address, address of the borrower’s next of kin, and the name and address of the borrower’s expected employer,** if possible. As indicated earlier, within 60 days after an exit interview a school must provide the guaranty agency indicated in the borrower’s student aid records with the borrower’s name, latest known address, employer, and employer address.



ENTRANCE

- Explore all sources of aid
- Stress constraints on aid
- Urge students to read and save all loan documents
- Describe consequences of multiple borrowing
- Review requirements for satisfactory academic progress
- Review school's refund policy
- Explain sale and servicing of loans

CORE ITEMS

- Remind students to keep lender informed
- Review loan terms and conditions
- Review student rights and responsibilities
- Review available repayment options
- Review deferment, forbearance, and cancellation conditions
- Review consequences of delinquency and default
- Loan repayment required even if program is not completed or doesn't meet borrower's expectations
- Counsel on personal financial planning

EXIT

- Review loan repayment obligations
- Provide data on average anticipated monthly repayment
- Provide information on debt management strategies
- Provide name and address of borrower's lender
- Obtain borrower's expected permanent address, expected employer's name and address, address of next of kin
- Verify school record of borrower's name, address, SSN, references, driver's license number

section 10 Default Reduction Measures

The U.S. Department of Education issued comprehensive default reduction regulations on June 5, 1989, as part of a major effort to reduce the default rate of Federal Stafford Loan and Federal Supplemental Loans for Students (SLS) borrowers. The regulations are found in the General Provisions regulations (Part 668) and in the Federal Family Education Loan Program (FFEL) Program regulations (Part 682). Schools with high FFEL Program cohort default rates are a major focus of the default reduction regulations and of subsequent legislation focusing on the problem of defaulted loans. These actions by law and regulation require schools to provide students with additional loan counseling and to take specific steps to reduce loan defaults.

Questions about the default reduction initiatives that are not answered in this chapter may be directed to

U.S. Department of Education
Default Management Division
Portals Building, Room 6300
600 Independence Avenue, SW
Washington, DC 20202-5353

Phone: 202/708-9396 or 202/708-6048

LOANS INCLUDED IN A SCHOOL'S COHORT DEFAULT RATES

Most default reduction measures are based on a school's cohort default rate for a given fiscal year. The fiscal year (FY) for the federal government is October 1 through September 30. Thus FY 1998 is the period October 1, 1997 through September 30, 1998.

In past years, the data used to calculate cohort default rates included only FFELs. Beginning with the calculation of FY 1995 cohort default rates, however, loans borrowed under the William D. Ford Federal Direct Loan Program (Direct Loans) have also been included.

Subsidized and unsubsidized Stafford Loans, subsidized and unsubsidized Direct Loans, and Federal Supplemental Loans for Students (SLS) are included in a school's cohort default rate calculation.

Federal PLUS Loans and Direct PLUS Loans are not included in calculating a school's cohort default rate. For information on how Federal Consolidation Loans and Direct Consolidation Loans are counted in cohort default rates, see the *FY 1995 Official Cohort Default Rate Guide*.

Loan is considered in repayment

For the purpose of calculating cohort default rates, a Stafford Loan or a Direct Stafford Loan is considered to have entered repayment on the day or month following six months of an uninterrupted initial grace period.

An SLS loan is considered to have entered repayment on the day after a student drops below half-time enrollment. There is once exception: If a student has both an SLS loan and a Stafford Loan that were obtained during the same enrollment period, the SLS loan is considered to have entered repayment on the same day as the Stafford Loan.

Loan is considered in default

For the purpose of calculating cohort default rates under FFEL, a loan is considered in default on the date that the Department or guaranty agency pays the default claim.

For the purpose of calculating cohort default rates under Direct Loans, a loan is considered to be in default on the 271st day of a borrower's delinquency for all types of schools (public; private nonprofit; proprietary degree-granting schools; and proprietary, non-degree-granting schools). For proprietary, non-degree-granting schools, a Direct Loan is also considered to be in default on the 271st day that a borrower's scheduled payments under the Income Contingent Repayment Plan have been less than $15 per month and less than the monthly interest accruing on the loan.

CALCULATING COHORT DEFAULT RATES

The cohort default rate is the percentage of current and former students who entered repayment on a Federal Stafford (subsidized or unsubsidized) or Federal SLS loan in a given fiscal year and who defaulted before the end of the following fiscal year. The cohort default rate is a combined rate for both Stafford Loans and SLS loans. However, a borrower who enters repayment on more than one of these loans during the fiscal year in question is counted only once in computing the school's default rate for that year.

Schools with 30 or More Borrowers

The formula for calculating a cohort default rate for schools with 30 or more borrowers entering repayment is:

$$\frac{\text{the number of students who both entered repayment in FY A and defaulted by the end of FY B (the following FY)}}{\text{the total number of students who entered repayment in FY A}}$$

The above calculation (for 30 or more borrowers entering repayment) is used for public, private nonprofit, and proprietary degree-granting institutions. For proprietary non-degree-granting institutions, the above calculation is used, but that calculation will also include the number of borrowers who meet all of the following criteria:

34 CFR 668.17 (e)(1)(ii)

◊ entered repayment in FY **A and**

◊ before the end of FY **B** (the following FY) have been in repayment for 270 days on a Direct Loan under the income-contingent repayment plan with scheduled payments that are less than $15 per month **and**

◊ those payments result in negative amortization.

(The same alternative can be used for proprietary non-degree-granting institutions for any fiscal year in which **fewer** than 30 students enter repayment.)

The following is an example of how the cohort default rate for a school with 30 or more borrowers in repayment is determined:

In FY 1995, 80 current and former SLS loan and/or Stafford Loan borrowers at Sturdy Community College entered repayment on their loans. By the end of FY 1996, 20 of those students, or one fourth, had defaulted. Thus, the school's FY 1995 cohort default rate is 25%.

Schools with Fewer than 30 Borrowers

For a school with fewer than 30 students entering repayment during the fiscal year, the percentage of current and former students who entered repayment on Stafford Loans or SLS loans in **any** of the three most recent fiscal years and who defaulted before the end of the following fiscal year

Average cohort default rate

will be used as that school's cohort default rate. This means that the number of students who enter repayment in any (or all) of the three most recent fiscal years (in this case, FY 1993, FY 1994, and FY 1995) are added together, and the number of students who default before the end of the following fiscal year in any of those years will be added together. Then, as with the cohort default rate for schools with 30 or more borrowers, the number of students in default divided by the number who entered repayment times 100% results in a percentage of students in default—which is the official cohort default rate for the school.

Previously, the default rate for each of the three most recent fiscal years was averaged to arrive at the official cohort default rate. **Note that average cohort rates calculated under that formula (for fiscal years prior to FY 1991) are not recalculated under the new formula.** More information on calculating cohort default rates for schools with fewer than 30 borrowers is included in the *FY 1995 Official Cohort Default Rate Guide* accompanying each school's official cohort default rate notification letter.

Following is an illustration of how the calculation for a school with fewer than 30 borrowers is made:

Chehak Institute had 15 borrowers who entered repayment in FY 1993; of those 15, 10 defaulted by the end of FY 1994. The school had 25 borrowers entering repayment in FY 1994; of those 25, 5 defaulted by the end of FY 1995. Chehak then had 20 borrowers entering repayment in FY 1995; of those 20, 5 defaulted by the end of FY 1996. Chehak's FY 1995 cohort default rate is calculated as follows:

FY 1993		FY 1994		FY 1995		
10	+	5	+	5	=	20
15	+	25	+	20	=	60

Thus, Chehak's FY 1995 default rate is 20 ÷ 60 x 100% = 33.3%.

Dual-program cohort rate—34CFR Section 668.17

Schools in Both FFEL and Direct Loans

If a school makes both FFELs and Direct Loans, the Department will calculate a rate that includes both types of loans, if applicable. Because a school's FY 1995 cohort default rate is based on the loans that entered repayment during FY 1995, a school that participates in both programs might have an FY 1995 cohort default rate based on only one program.

The Department now calculates the following types of rates:

◊ FFEL cohort default rate

◊ Direct Loans cohort rate

◊ dual-program cohort rate (also known as weighted-average cohort rate

Tarlek College participates in both FFEL and Direct Loans. Seventy-three former students who received FFELs through the school entered repayment between October 1, 1994 and September 30, 1995, but no Direct Loan borrowers from the school entered repayment during that period. Tarlek College's FY 1995 cohort default rate is based on the 73 borrowers who entered repayment during FY 1995. Thus, the school's FY 1995 cohort default rate is based only on FFELs. If borrowers from both programs through Tarlek College had entered repayment during FY 1995, the school's cohort default rate would be based on both FFELs and Direct Loans.

Unduplicated borrower count

A borrower may enter repayment on both a FFEL and a Direct Loan in a given fiscal year. In this situation, the school's weighted-average cohort rate is determined by comparing the number of both FFEL and Direct Loan borrowers who enter repayment in a fiscal year against those borrowers who default before the end of the following fiscal year. Each borrower and each default is counted only once—even if a borrower has both FFELs and Direct Loans entering repayment in a given fiscal year.

CHANGES OCCURRING AFTER AN OFFICIAL COHORT DEFAULT RATE CALCULATION

A cohort default rate is like a snapshot of the time period affected. Changes that occur after the data for a particular cohort default rate are collected will not affect that default rate calculation. To illustrate, let's look at Sturdy Community College's FY 1995 cohort default rate. Those students who enter repayment in FY 1995 and default before the end of FY 1996 are counted in Sturdy's FY 1995 cohort default rate. On the following page are examples of three students who attended Sturdy and who subsequently defaulted.

Jan defaulted in July 1996 but made satisfactory arrangements to repay her loan and began payments under those arrangements in December 1996. For purposes of calculating Sturdy's FY 1995 cohort default rate, Jan continues to be counted as in default.

Don entered repayment in October 1994 and subsequently defaulted in May 1996. However, he won $10,000 in a lottery in November 1996 and promptly repaid his loan in full. Nevertheless, Don will continue to be counted as in default in Sturdy's FY 1995 cohort default rate calculation.

Jay made payments on a loan that entered repayment in FY 1995. However, in the spring of 1996 Jay lost his job and, failing to apply for a deferment, defaulted on his loan in November 1996. Because Jay's default occurred after the FY 1995 cohort default rate calculation period ended (after September 30, 1996), his loan was reported as being in repayment only. Jay's loan is not counted as a default in any fiscal year's cohort default rate calculation.

DRAFT COHORT DEFAULT RATES

The Department calculates draft cohort default rates before it calculates and publishes **official** school cohort default rates. The Department's calculating draft rates gives schools a reasonable opportunity to review and correct errors in the repayment and default information that guaranty agencies must provide to the Department for the purpose of calculating a schools' cohort default rates.

The Department issued regulations published April 29, 1994 and November 29, 1994 governing the draft cohort default rate review process. Further information on the draft default rate review process is provided to schools in a booklet titled *FY 1995 Draft Cohort Default Rate Review Guide*, which is mailed to schools with their draft default rate notification letters.

Review and correction

Each school participating in the FFEL Program has the opportunity to review and correct draft cohort default rate data before official cohort default rates are calculated. (The Department is providing the same opportunity to schools participating in Direct Loans.)

School finds inconsistencies

If a school finds inconsistencies between its records and the draft data, it must submit a challenge to the relevant guaranty agency or Direct Loan Servicing Center within 30 calendar days of receiving the data. If the guaranty agency or Direct Loan Servicing Center agrees with the school's allegations of error, the agency will submit data corrections to the

National Student Loan Data System (NSLDS). If these changes are not reflected in the school's official backup data, the school may request that the Department adjust its official cohort default rate. The school must send its adjustment request within ten working days after it receives its official cohort default rate. See the *FY 1995 Official Cohort Default Rate Guide* for more information on adjustment requests.

Adjustment requests

A school that does not challenge the data during the draft data review process may not challenge that same data at any other time.

The Department will not release draft cohort default rate information to the public, nor will it use draft cohort default rates to determine a school's program eligibility or to assess penalties. For additional information on the draft data review process, see the *FY 1995 Draft Cohort Default Rate Review Guide*.

CHANGE IN STATUS OF A SCHOOL

Default reduction measures apply to **all** divisions and locations of a school. If a school changes its status (by branching, consolidating, or changing ownership, for example) the Department will track and impose appropriate consequences for cohort default rates for fiscal years both before and after the change in status.

If a location becomes a free-standing school:

A school that is a location of a proprietary vocational or vocational postsecondary school and that is seeking institutional eligibility in its own right, is required to operate independently from its former "parent" school for at least two years before it is eligible to participate in SFA Programs.

If a school changes ownership:

If the new owner applies for eligibility to participate in the SFA Programs as a continuation of the old school, the new owner remains responsible for the school's cohort default rates and for implementing any requirements associated with those rates. New owners should be aware that cohort default rates calculated for fiscal years prior to the change of ownership may affect the school's ability to participate in SFA Programs. In fact, a school undergoing a change of ownership may be refused certification for participation in any SFA Program or may be granted provisional certification on the basis of current cohort default rates.

The Department is required by law to use procedures that prevent a school from evading the application of a cohort default rate determination through such measures as branching, consolidation, change of ownership or control, or other similar device. Specific information on how cohort default rates for prior fiscal years are used for eligibility determinations following a change in status for a school was not available at the time this Handbook went to print. The Department will issue further guidance on this topic in the form of Dear Colleague Letters. When issued, this up-to-date information will also be available on the SFA BBS.

Financial aid administrators with any questions regarding their schools' official cohort default rates should contact the Default Management Division at the address and phone numbers listed at the beginning of this section. Questions regarding a school's change in ownership should be directed to the Initial Participation Branch of the Department at 202/260-3270.

CONSEQUENCES ASSOCIATED WITH HIGH OFFICIAL COHORT DEFAULT RATES

In the past, if a school's cohort default rate exceeded 20%, the school was required to implement a default management plan to reduce its rate of borrower default. The school had to provide a proposed default management plan to the Department and the guaranty agency that guaranteed the largest volume of loans to its borrowers. The school was required to either adopt its own plan or notify the Department that it adopted Appendix D of Part 668 of the General Provisions regulations. However, effective July 1, 1996, a default management plan is no longer required.

Schools with cohort default rates of 20% to 24.9% are not subject to sanctions and may be eligible to appeal their cohort default rates only based on the grounds of improper loan servicing and collection. This type of appeal is described on page 10-103. For all types of appeals, strict appeal time frames and standards must be met. More comprehensive information is provided in the cohort default rate notification letter and the *FY 1995 Official Cohort Default Rate Guide*. Regulatory provisions on appeal procedures and time frames are stated in the December 1, 1995 Student Assistance General Provisions Final Rule.

Cohort Default Rates of 25% or Greater for FY 1993, FY 1994, and FY 1995

If a school's cohort default rates are 25% or greater for the three most recent fiscal years for which data are available, the school loses its eligibility to participate in the FFEL Program 30 calendar days after the date the institution receives notification from the Department of this rate.

Please note that a school can lose its eligibility for the Direct Loan Program based on FFEL cohort default rates. A school subject to loss of

FFEL or Direct Loans eligibility may be eligible to appeal this action; the appeal process is described on pages 10-102 through 10-105. Loss of eligibility remains in effect for the remainder of the fiscal year in which the school was notified of the loss plus the following two fiscal years. Thus, if the Department notified a school that it lost eligibility in FY 1998, the earliest it could reapply for eligibility to participate in the FFEL or Direct Loan Program is October 1, 2000, the first day of FY 2001. A school that loses eligibility must immediately inform all current and potential students of its ineligibility and must make clear to students that they cannot receive FFELs or Direct Loans for attendance at the school. Students attending the school remain eligible for in-school deferments.

Loss of program eligibility

Exemptions

Please note that historically black colleges and universities (HBCUs), tribally controlled community colleges, and Navajo community colleges are not subject to loss of FFEL Program eligibility due to default rates greater than 25% for the three most recent fiscal years for which data are available. This exemption has been extended to July 1, 1998.

If a school loses FFEL Program eligibility, any FFEL proceeds disbursed to the school but not delivered to a borrower (or credited to the student's account) must be returned to the lender immediately. If a school loses its eligibility during a payment period but continues to provide instruction to students enrolled in its formerly eligible program, a student who, at the time of the school's loss of eligibility, has received a first disbursement of a Stafford Loan may receive the second (or subsequent) disbursement, as long as he or she is otherwise eligible. This provision assumes that the school remains open during the period of enrollment for which the loan was made.

Appeal rights

Schools in this category may be eligible to appeal based on any of the three types of appeals described on pages 10-102 to 10-105 (erroneous data, improper loan servicing and collection, or exceptional mitigating circumstances) in order to remain eligible to participate in the FFEL Program and/or Direct Loans. Strict appeal time frames and standards must be met, as explained on those pages. More comprehensive information is provided in the cohort default rate notification letter and the *FY 1995 Official Cohort Default Rate Guide*. If a school is in this default rate category, the school's financial aid administrator should read both of these documents carefully; they will provide additional information about what steps a school in this category should take. The school must retain the default rate notification letter for program review and audit purposes.

Cohort default rates that exceed 40%

Limitation, suspension, or termination (LS&T) is possible if a school has a cohort default rate over 40% for FY 1995. LS&T action affects a school's participation in **all** SFA programs. An LS&T action will not be initiated if the institution can prove that the cohort default rate is not final and that the correct rate would be less than 40%.

APPEAL PROCEDURES

The right to appeal and the type of appeal that a school may submit varies depending upon the school's default-rate category. The school will remain eligible to participate in the FFEL and/or Direct Loan Programs during the appeals process. It is critical for schools to follow the appeal time frames and standards set forth in the December 1, 1995 Student Assistance General Provisions Final Rule and the *FY 1995 Official Cohort Default Rate Guide*. If the school does not correctly follow these procedures and time lines, the appeal will not be reviewed. The Department's appeal decisions are final.

As indicated previously, schools with official cohort default rates of 20% or greater that are not subject to sanctions may appeal only on the grounds of improper loan servicing and collection.

Schools subject to loss of FFEL and/or Direct Loan Program eligibility (those schools with cohort default rates of 25% or greater for the three most recent fiscal years) may appeal based on any of these three circumstances: erroneous data, improper loan servicing and collection, or exceptional mitigating circumstances.

For further details concerning appeal procedures, please refer to the *FY 1995 Official Cohort Default Rate Guide*.

◊ **Erroneous data**

A school may appeal by challenging the accuracy of the default rates if it believes that a recalculation of the data would produce a rate less than 25% for any of the three relevant fiscal years.

Erroneous data appeal process

The school must submit its written request for verification of error to the appropriate guaranty agency (or agencies) within 10 working days of the date the school receives its default rate notification letter. The school must provide a copy of the request to the Secretary at the same time it submits the request to the guaranty agency (or agencies). The guaranty agency (or agencies) must respond within 15 working days. The school must submit its erroneous data appeal to the Department within five working days of receiving the final response from the guaranty agency (or agencies).

◊ **Improper loan servicing and collection:**

A school may be eligible to appeal its cohort default rate and loss of eligibility, if applicable, based on allegations of improper loan servicing and collection. The Department has developed regulations governing procedures for this type of appeal. These regulations were published as a Student Assistance General Provisions Final Rule on November 29, 1994.

An institution's allegation that a lender or servicer did not conduct its loan servicing and collection responsibilities properly will be considered if

- the borrower did not make a payment on the loan **and**
- if the institution can show that the lender or servicer failed to perform one or more of the four activities listed below.

34 CFR 668.17(h)(viii)

These four activities include

- sending at least one letter, other than the final demand letter, urging the borrower or endorser to make payments on the loan;
- making at least one attempt to reach the borrower or endorser by phone;
- requesting preclaims assistance from the guaranty agency, if required; and
- sending the final demand letter.

Improper loan servicing and collection appeal procedures

To begin the appeal process, a school must submit copies of the relevant backup data to the appropriate guaranty agency (or agencies) and request loan servicing records within 10 working days after the date the school receives the Department's notification. The school must send a courtesy copy of every request for loan servicing records to the Department. The school will then receive a sample of loan servicing and collection records from the guaranty agency (or agencies). If the school is subject to loss of FFEL and/or Direct Loans eligibility, the guaranty agency (or agencies) must respond to the school's request for the sample records within 15 working days. Otherwise, the guaranty agency (or agencies) must respond to the school within 30 working days. After receiving this information from the guaranty agency (or agencies), the school has 30 calendar days to file its appeal with the Department.

◊ **Exceptional mitigating circumstances:**

A school may appeal under one exceptional mitigating circumstance. There are different mitigating circumstances appeal standards for degree-granting schools and non-degree-granting schools. A school must send its mitigating circumstances appeal to the Department within 30 calendar days of receiving notification of its loss of eligibility.

The appeal must include a statement from an independent auditor verifying that the information provided in the appeal is complete and accurate. The school or independent auditor must send this opinion to the Department within 60 calendar days following the school's receipt of notification of its loss of eligibility.

For more information on exceptional mitigating circumstances appeals, see the *FY 1995 Official Cohort Default Rate Guide* .

The exceptional mitigating circumstances are:

- The school is serving students from disadvantaged economic backgrounds **and** meets the required completion or placement rate. The school must meet the following requirements:

Economically disadvantaged and completion rates criteria

Δ at least 70% of its students enrolled at least half time are from disadvantaged economic backgrounds, for a 12-month period that has ended during the 6 months immediately preceding the fiscal year "for which the cohort of borrowers used to calculate the institution's rate is determined;"

Note that "disadvantaged" is defined as an Expected Family Contribution (EFC) of 0 for the award year coinciding with the same 12-month period just described, or is defined as an adjusted gross income (AGI) of the student and the student's parents or spouse, if applicable, that is less than the poverty level as determined by the U.S. Department of Health and Human Services.

Δ at least 70% of a degree-granting school's students who were initially enrolled as full time and who were scheduled to complete their programs within the same 12-month period described previously, do complete their programs, transfer to higher level educational programs, or remain enrolled and are making satisfactory academic progress at the end of the 12-month period; or

Economically disadvantaged and placement rates criteria

Δ a non-degree-granting school had a placement rate of 50% or more with respect to its former regular students who remained in the program beyond the point the students would have received a 100% tuition refund from the institution. This rate is based on the number of students initially enrolled at least half time who were scheduled to complete their program within the same 12-month period the school has chosen to determine the percentage of students that come from disadvantaged economic backgrounds.

Participation rate index

- The other mitigating circumstance serving as a grounds for appeal is that the school has a participation rate index of 0.0375 or less. This index is determined by multiplying the school's FFEL Program cohort default rate, Direct Loan Program cohort rate or weighted average cohort rate by the percentage of the school's regular students, as defined in 34 CFR 600.2, enrolled on at least a half-time basis who received a loan made under either the FFEL Program or the Direct Loan Program for a 12-month period that has ended during the six months immediately preceding the fiscal year for which the cohort of borrowers used to calculate the school's rate is determined.

  Institutions with cohort default rates above 40% may not appeal loss of eligibility on this basis.

All three types of appeals must be sent to the Default Management Division at the address listed on page 10-93. Questions concerning a school's cohort default rate and its consequences should be directed to the Default Management Division at the address and telephone number listed on that page.

The appeal decision is final

The Department issues a decision on an institution's appeal within 45 calendar days after submission of the complete appeal. The appeal determination is final. The Department's regulations do not provide for further administrative review.

GENERAL REQUIREMENTS TO REDUCE DEFAULT

The following requirements are applicable to all schools:

◊ **All** schools (except foreign schools) wishing to participate in the FFEL Program must develop a default-management plan for the Department's approval as part of the initial application for participation; all schools must implement the plan for two years after they become eligible. Recertification will be required of all schools every five years; a default-management plan is a requirement of the Program Participation Agreement for schools wishing to participate in FFEL Programs.

◊ A school that admits students who do not have a high school diplomas or their equivalents must make available to those students a General Education Development (GED) program. The school does not have to develop its own GED program or pay students' tuition for such a program, but the school must be sure that a GED program is available nearby and must inform students of GED program availability. This requirement applies to all SFA programs except State Student Incentive Grant (SSIG) and Byrd Scholarship programs. See Chapter 3 for more details on GED requirements.

Disbursement requirements

◊ For Stafford Loans and PLUS Loans, proceeds must be disbursed in two or more installments, regardless of the amount of the loan or the length of the enrollment period for which the loan is made. No disbursement may exceed half of the loan amount. See Section 3 of this chapter for more on this requirement.

◊ Late disbursements of Stafford and PLUS Loans are subject to certain restrictions. See Section 3, for more information.

◊ A Stafford Loan borrower who is entering the first year of an undergraduate program—and who has not previously received a Stafford Loan—may not receive the first installment of loan proceeds until 30 days after the first day of the program of study.

If the first-time undergraduate borrower's FFEL loan is disbursed by EFT or by master check, a school may not request the disbursement of the borrower's loan proceeds until the 24th day of the student's period of enrollment.

◊ A school is required to provide to the appropriate lender—on behalf of each student borrower—a disbursement schedule that meets Stafford Loan and PLUS Loan disbursement requirements. See Section 3.

◊ Each school participating in SFA Programs is required to have a fair and equitable refund policy.

Unless a school's refund policy is more stringent, the school must at least provide students with pro rata refunds if the students are attending the school for the first time and do not complete 60% of the period of enrollment for which the students have been charged. Pro rata refund calculations are explained in Chapter 3.

section 11

Additional School Requirements

REFUNDS

Chapter 3 provides a general discussion of refunds and refund policies. Only information specific to the Federal Family Education Loan (FFEL) Program is provided here. Note that the refund policy information in Chapter 3, of course, extends to a parent who receive a Federal PLUS Loan on behalf of a dependent student who does not enroll for the academic period for which the loan was intended or who does not complete the academic period for which the loan was made.

Refund to student via lender

In the case where a school makes a refund to a student via the lender, the school must make the refund within 60 days after the student's official withdrawal date. If a student drops out, the school must pay the refund within 60 days of the earliest date of the following three dates:

1) the date the student dropped out according to the school

2) the last day of the academic term in which the student withdrew

3) the last day of the period of enrollment for which the student has been charged

Student doesn't return from leave of absence

Concerning the refund policy for a student who does not return to school following an approved leave of absence, any refund due must be paid within 30 days of whichever of the following dates is earlier:

1) the expiration of the leave of absence

2) the student's date of notification that he or she will not be returning to the institution after the leave of absence expires

If the student was on an unapproved leave of absence, the refund must be made within 60 days of the student's last recorded date of class attendance.

All refunds must be sent directly to the lender—they must not be given to the student or parent.

When a school makes a refund to a lender, the school must notify the student in writing and—if the borrower is the student's parent—the school must also notify the parent.

EXCHANGE OF INFORMATION REQUIREMENTS

A school is required to inform a lender or guaranty agency within 30 days of discovery of any change in a Stafford Loan borrower's permanent address. The school also must (on request) provide a lender or guaranty agency with the borrower's name, address, and if possible, the employer and employer address. Within 60 days after the exit interview, the school must provide the guaranty agency that was listed in the borrower's student aid records with updated information about

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

To promote loan repayment, a school may make agreements to provide the holders of delinquent loans of current or former students with information about the delinquent borrower's location or employment. The school may also try to contact the borrower and counsel him or her to avoid default.

A lender must provide a school with the name and Social Security Number of the student for whom a parent is borrowing a PLUS Loan. If a lender has requested preclaims assistance from a guaranty agency, the guaranty agency (rather than the lender) must provide the school at which the borrower obtained a loan with the borrower's name, address, and Social Security Number. The guaranty agency may charge the school a reasonable fee for the service. The school may only use the information to remind the borrower to repay his or her loan(s).

At the request of a school, a guaranty agency must provide, without charge, information about students enrolled at the school if such students are in default on FFELs. The guaranty agency must also provide the school, on request, with the notice of sale, transfer, or assignment of the loan to another holder, as well as the address and telephone number of the new loan holder. This requirement must be met prior to the beginning of the loan repayment period but only applies if a borrower is in the grace period or is in repayment.

RECORDKEEPING, AUDITS, AND REPORTS

Record retention and examination requirements have been standardized for all SFA programs and are set forth in the November 27, 1996 Student Assistance General Provisions Final Rule. Chapter 3 provides detailed information on these subjects. Included here is FFEL-specific information.

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

The following lists some examples of the types of student loan records that a school must maintain:

Loan application

◊ the name of the borrower and a copy of the loan application (if the borrower is a parent, the name of the student on whose behalf the PLUS Loan was made);

SAR

◊ the *Student Aid Report* (SAR) or *Institutional Student Information Record* (ISIR) used to determine the borrower's eligibility for SFA funds;

Loan details

◊ the amount of the loan, its payment period, its loan period, (if appropriate), the calculations used to determine the loan amount, and the date and amount of each loan disbursement;

◊ the name and address of the lender;

EFA

◊ financial assistance that was available to the student and used in determining estimated financial assistance (EFA) for the loan period;

Data used for COA

◊ the data used to construct an individual student's budget or the school's itemized standard budget used in calculating the student's estimated cost of attendance (COA);

Student's school account information

◊ the amount of a student's tuition and fees for the loan period, the date the student paid the tuition and fees, and the date the loan check was received and delivered to the student;

Refund calculation

◊ the amount and basis for calculation of any refund paid to or on behalf of the student; and

Data used to determine EFC

◊ for subsidized Stafford Loans, the data used to determine the student's EFC.

◊ the date the school endorsed the loan check;

◊ the date(s) of transmittal of loan proceeds to the student;

◊ documentation of the student's Federal Pell Grant eligibility or ineligibility (for Stafford Loan borrowers and PLUS Loans with late disbursements).

Format of records

A school may keep these required records in hard copy or in microform, computer files, optical disk, CD-ROM, or other media formats. All record information must be retrievable in a coherent hard copy format or in other media formats acceptable to the Department.

School that is lender

If a school is a lender and the holder of a promissory note, the school must also retain the original note. Every two years, an independent certified public accountant must audit the school; the audit must cover the period of time since the previous audit. A school must agree to allow the Department or a guaranty agency to audit the school's records periodically to verify compliance with SFA regulations.

SSCRs

A *Student Status Confirmation Report* (SSCR) is a reflection of a school's FFEL borrower data. If these reports are not reconciled and reflect inaccurate data, borrowers will not be converted to their grace and repayment periods properly, and the school's cohort default rate will likely be inaccurate. The school is responsible for completing SSCRs.

SSCRs and NSLDS

The Department has incorporated SSCRs into the National Student Loan Data System (NSLDS) in order to centralize and fully automate the enrollment verification process. In April 1996, all schools should have received an electronic SSCR file from NSLDS via the Title IV Wide Area Network (TIV WAN). This file contains enrollment information on FFEL Program and Federal Direct Loan Program borrowers that the Department believes are currently attending each school or who have recently left each school.

Since NSLDS is taking over the SSCR process, guaranty agencies will no longer send SSCRs to schools that have successfully completed their practice rosters; the agencies now receive enrollment verification directly from NSLDS. For further information on NSLDS, please consult Dear Colleague Letter GEN-96-13 (July 1996).

A school that is fully operational in reporting SSCR data to the NSLDS are exempt from the requirement to provide SSCRs directly to guaranty agencies. However, the school must still respond to requests for borrower information from guaranty agencies, lenders, and loan servicers. The school must continue to provide loan holders and loan servicers with a borrower's enrollment status or enrollment history for deferment and other repayment purposes and with information needed to locate a borrower. This information includes last known address, change in surname, and employer's name and address.

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

AUDIT REQUIREMENTS

Default rate above 20%

A school with a default rate above 20% is required to undergo a biennial on-site guaranty agency review of its FFEL Programs, unless the school is operating under an approved default management plan or unless the school's default rate is based on loans entering repayment totalling less than $100,000 in a given year.

More information is provided in the *Audit Guide: Audits of Student Financial Assistance Programs.* Compliance audits must be conducted by an independent auditor in accordance with the U.S. General Accounting Office's (GAO's) Government Accounting Standards. The *Audit Guide* sets forth general accounting standards and the standards specifically for compliance audits.

These are some of the FFEL-specific requirements that are subject to audit:

◊ A school must determine student eligibility. In the case of a PLUS Loan, the financial aid administrator must also determine whether the parent is eligible to borrow on behalf of an eligible dependent student. Auditing of the determination of Pell Grant eligibility for undergraduate Stafford Loan borrowers is also required.

◊ A school must complete portions of the loan application regarding student eligibility, the student's estimated COA, the student's EFA, and, if applicable, the EFC. The school also must meet the loan certification and other requirements of 34 CFR 682.603.

◊ A school must follow prescribed procedures in the FFEL Program regulations (34 CFR 682.604) for handling loan proceeds. These procedures vary depending on whether the student does or does not enroll and on whether the proceeds are payable to the student only or jointly to the student and to the school.

◊ When a school becomes aware that: (1) a student with a deferment no longer meets the conditions for an in-school deferment, (2) a student who received a loan or for whom a PLUS Loan was received failed to enroll at least half time for the period for which the loan was intended or was otherwise ineligible for the loan, or (3) a student’s permanent address has changed, such information must immediately be reported to the lender or the guaranty agency.

◊ A school must establish adequate entrance and exit counseling procedures.

PROGRAM PARTICIPATION AGREEMENT REQUIREMENTS

Chapter 3 provides detailed information on the Program Participation Agreement (PPA). Provided here is FFEL-specific information about the PPA. A school’s PPA requires that

◊ a school beginning participation in the FFEL Program after a change of ownership or a change in the school’s status must develop a Default Management Plan for approval by the Department and must maintain the plan for two years after certification;

◊ if a student is unable to pay costs of attendance owed a school because of a delay in delivery of FFEL proceeds and the delay is the fault of the school or is a result of adhering to SFA Program requirements, the school may not penalize the student;

◊ a school provide students with recent data on employment and graduation statistics when advertising job-placement rates to recruit students;

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

◊ a school certify the availability of a drug abuse prevention program for officers, employees, and students of the school.

The PPA (as well as program regulations) also prohibits schools from charging students fees for processing applications or data required to determine eligibility for SFA Programs or for processing FFEL Program deferment forms and prohibits the certification of loans in excess of the student's eligibility.

PROHIBITED SCHOOL AND LENDER ACTIVITY

An eligible school may not employ or use commissioned salespersons to promote the availability of loans. A commissioned salesperson is any person who receives compensation that is related to, or calculated on the basis of, student applications, enrollments, or acceptances. "Promote the availability" means providing prospective or enrolled students with applications, names of lenders, or other information designed to encourage students to apply for FFELs. This term does not prohibit a commissioned salesperson from providing prospective or enrolled students with general financial aid information. However, the Higher Education Act of 1965 (HEA), as amended, prohibits any commission, bonus, or other incentive payments based on an employee's success in securing enrollment, admissions, or the awarding of student aid. (This prohibition does not apply to the recruitment of foreign students who are not eligible for SFA funds.)

Similarly, guaranty agencies and lenders are prohibited by law from offering inducements (such as points, premiums, or payments) to schools or individuals as a means to market loans. Lenders and guaranty agencies are also forbidden to mail unsolicited loan application forms to a student, unless the student has previously obtained a student loan from that lender or agency.

A school may not make payments to induce lenders to make loans to students (or to the parents of students) at that school. In addition, a school may not ask for scholarships or other forms of financial support from a lender in exchange for an exclusive marketing opportunity or loan referrals from the school. Examples of prohibited inducements are provided in 34CFR 682.212(b) and 682.401(e)(2)(i).

A March 1995 Dear Colleague Letter (95-G-278) provided further guidance on prohibited inducements by lenders as a result of special arrangements with schools and on limitations on lending by schools.

Appendix:

Guaranty Agency Directory

GUARANTY AGENCIES

ALABAMA

Kentucky Higher Education Assistance
Authority
1050 U.S. 127 South
West Frankfort Office Complex
Frankfort, Kentucky 40601-4323

502/564-7990
800/928-8926

ALASKA (FEDERAL LOANS)

USA Funds, Inc.
P.O. Box 6180
Indianapolis, IN 46206-6180

317/849-6510
800/382-4506
800/428-9250

ALASKA (STATE LOANS)

Alaska Commission on Postsecondary
Education
Alaska Student Loan Corporation
3030 Vintage Boulevard
Juneau, Alaska 99801-7109

907/465-2962

ARIZONA

USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180

317/849-6510
800/382-4506
800/428-9250

ARKANSAS

Student Loan Guarantee Foundation of
Arkansas
219 South Victory Street
Little Rock, Arkansas 72201-1884

501/372-1491
800/622-3446

CALIFORNIA

California Student Aid Commission
P.O. Box 510845
Sacramento, California 94245-0845

916/445-0880
800/367-1589 (defaulted loans)
916/322-9277 (billing problems)

COLORADO

Colorado Student Loan Program
Suite 425
999 18th Street
Denver, Colorado 80202-2471

303/294-5050
800/727-9834

CONNECTICUT

Connecticut Student Loan Foundation
P.O. Box 1009
Rocky Hill, Connecticut 06067

860/257-4001
800/237-9721
800/345-6055

DELAWARE

Pennsylvania Higher Education Assistance
Agency
1200 North 7th Street
Harrisburg, PA 17102-1444

717/720-2850
800/692-7392

DISTRICT OF COLUMBIA

American Student Assistance
330 Stuart Street
Boston, Massachusetts 02116-5292

617/426-9434
800/999-9080

FLORIDA

Florida Department of Education
Office of Student Financial Assistance
325 West Gaines Street
Collins Building, Room 255
Tallahassee, Florida 32399-0400

904/488-4095
800/366-3475

GEORGIA

Georgia Higher Education Assistance
Corporation
Suite 200
2082 East Exchange Place
Tucker, Georgia 30084

770/414-3000
800/776-6878

HAWAII

USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180

317/849-6510
800/382-4506
800/428-9250

IDAHO

Northwest Education Loan Association
500 Coleman Building
811 First Avenue
Seattle, Washington 98104

206/461-5300
800/562-3001

ILLINOIS

Illinois Student Assistance Commission
1755 Lake Cook Road
Deerfield, Illinois 60015

847/948-8500
800/477-4411
800/934-3572 (defaulted loans)

INDIANA

USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180

317/849-6510
800/824-7044
800/428-9250

IOWA

Iowa College Student Aid Commission
200 10th St., 4th floor
Des Moines, Iowa 50309-3609

515/281-3501
800/383-4222

KANSAS

USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180

317/849-6510
800/824-7044
800/428-9250

KENTUCKY

Kentucky Higher Education Assistance
Authority
1050 U.S. 127 South
West Frankfort Office Complex
Frankfort, Kentucky 40601-4323

502/564-7990
800/928-8926

LOUISIANA

Louisiana Office of Student Financial
Assistance
P.O. Box 91202
Baton Rouge, Louisiana 70821-9202

504/922-1012
800/259-5626

MAINE

Finance Authority of Maine
1 Weston Court
State House Station 119
Augusta, Maine 04333
207/626-8200
800/228-3734 (in Maine)

MARYLAND

USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180
317/849-6510
800/824-7044
800/428-9250

MASSACHUSETTS

American Student Assistance
330 Stuart Street
Boston, Massachusetts 02116-5292
617/426-9434
800/999-9080

MICHIGAN

Michigan Higher Education Assistance
Authority
P.O. Box 30047
Lansing, Michigan 48909
517/373-0760
800/642-5626

MINNESOTA

Great Lakes Higher Education Corporation
P.O. Box 7858
Madison, Wisconsin 53707
608/246-1800
800/236-4300
800/944-0904 (defaulted loans)

MISSISSIPPI

USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180
317/849-6510
800/824-7044
800/428-9250

MISSOURI

Coordinating Board for Higher Education
3515 Amazonas Drive
Jefferson City, Missouri 65109-5717
573/751-2361
800/473-6757 (in Missouri)

MONTANA

Montana Guaranteed Student Loan Program
P.O. Box 203101
Helena, Montana 59620-3101
406/444-6594
800/537-7508
800/322-3086 (defaulted loans)

NEBRASKA

Nebraska Student Loan Program
P.O. Box 82507
Lincoln, Nebraska 68501-2507
402/475-8686
800/735-8778

NEVADA

USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180
317/849-6510
800/382-4506
800/428-9250

NEW HAMPSHIRE

New Hampshire Higher Education
Assistance Foundation
P.O. Box 877
Concord, New Hampshire 03302-0877
603/225-6612
800/525-2577

NEW JERSEY

New Jersey Higher Education Assistance
Authority
4 Quakerbridge Plaza CN540
Trenton, New Jersey 08625
609/588-3200
800/356-5562
800/792-8670

NEW MEXICO

New Mexico Student Loan Guarantee
Corporation
P.O. Box 27020
Albuquerque, New Mexico 87125-7020
505/345-3371
800/279-3070

NEW YORK

New York State Higher Education
Services Corporation
99 Washington Avenue
Albany, New York 12255
518/474-5592
800/642-6234

NORTH CAROLINA

North Carolina State Education
Assistance Authority
P.O. Box 2688
Chapel Hill, North Carolina 27515-2688
919/549-8614

NORTH DAKOTA

Student Loans of North Dakota Guarantor
P.O. Box 5524
Bismark, North Dakota 58506-5524
701/328-5763
800/472-2166

OHIO

Great Lakes Higher Education Corporation
P.O. Box 7858
Madison, Wisconsin 53707
608/246-1800
800/236-4300
800/944-0904 (defaulted loans)

OKLAHOMA

Oklahoma Guaranteed Student Loan Program
P.O. Box 3000
Oklahoma City, Oklahoma 73101-3000
405/552-4300
800/247-0420

OREGON

Oregon State Scholarship Commission
Suite 100
1500 Valley River Drive
Eugene, Oregon 97401
541/687-7400
800/452-8807

PENNSYLVANIA

Pennsylvania Higher Education Assistance
Agency
1200 North 7th Street
Harrisburg, Pennsylvania 17102-1444
717/720-2850
800/692-7392

RHODE ISLAND

Rhode Island Higher Education
Assistance Authority
560 Jefferson Boulevard
Warwick, Rhode Island 02886-1320
401/736-1100
800/922-9855

SOUTH CAROLINA

South Carolina State Education
Assistance Authority
Suite 210
Interstate Center
P.O. Box 210219
Columbia, South Carolina 29221
803/798-0916
800/347-2752

SOUTH DAKOTA

Education Assistance Corporation
115 First Avenue, S.W.
Aberdeen, South Dakota 57401
605/225-6423
800/592-1802

TENNESSEE

Tennessee Student Assistance Corporation
404 James Robertson Parkway
Suite 1950
Parkway Towers
Nashville, Tennessee 37243-0820

615/741-1346
800/342-1663 (in Tennessee)
800/447-1523 (in Tennessee)
800/257-6526 (outside Tennessee)

TEXAS

Texas Guaranteed Student Loan Corporation
P.O. Box 201725
Austin, Texas 78720-1725

512/219-5700
800/252-9743
800/845-6267

UTAH

Utah Higher Education Assistance Authority
P.O. Box 45202
Salt Lake City, Utah 84145-0202

801/321-7200
800/418-8757

VERMONT

Vermont Student Assistance Corporation
P.O. Box 2000
Winooski, Vermont 05404-2601

802/655-9602
800/798-8722
800/642-3177 (in Vermont)

VIRGINIA

Educational Credit Management Corporation
411 East Franklin Street
Suite 300
Richmond, Virginia 23219

804/644-6400

888/775-3262

888/295-1121 (default prevention)

WASHINGTON

Northwest Education Loan Association
500 Coleman Building
811 First Avenue
Seattle, Washington 98104

206/461-5300
800/562-3001

WEST VIRGINIA

Pennsylvania Higher Education Assistance
Agency
1200 North 7th Street
Harrisburg, Pennsylvania 17102-1444

717/720-2850
800/692-7392

WISCONSIN

Great Lakes Higher Education Corporation
P.O. Box 7858
Madison, Wisconsin 53707

608/246-1800
800/236-4300
800/944-0904 (defaulted loans)

WYOMING

USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180
317/849-6510
800/382-4506
800/428-9250

AMERICAN SAMOA

USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180
317/849-6510
800/382-4506
800/428-9250

NORTHERN MARIANA ISLANDS

USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180
317/849-6510
800/382-4506
800/428-9250

FEDERATED STATES OF MICRONESIA, MARSHALL ISLANDS, REPUBLIC OF PALAU

USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180
317/849-6510
800/382-4506
800/428-9250

VIRGIN ISLANDS

Great Lakes Higher Education Corporation
P.O. Box 7858
Madison, Wisconsin 53707
608/246-1800
800/236-4300
800/944-0904 (defaulted loans)

GUAM

USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180
317/849-6510
800/382-4506
800/428-9250

PUERTO RICO

Great Lakes Higher Education Corporation
P.O. Box 7858
Madison, Wisconsin 53707
608/246-1800
800/236-4300
800/944-0904 (defaulted loans)