Borrower Eligibility for Stafford and PLUS loans

CHAPTER 2

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

BORROWER ELIGIBILITY ISSUES:

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

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

ELIGIBLE PREPARATORY COURSEWORK

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

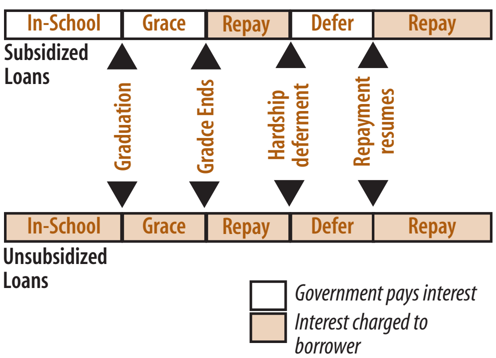
- **Undergraduate preparatory work.** A student may apply for a Stafford Loan for up to 12 months of coursework taken in a single consecutive period if the school has documented that the coursework is necessary in order for the student to enroll in an undergraduate degree or certificate program. This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

Need and religious orders

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

Sub and unsub loans

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



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

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

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

an academic year. Loan limits are explained in Chapter 3 of this volume.

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

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

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

SUBSIDIZED AND UNSUBSIDIZED LOANS

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

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

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

In most cases, the interest that accumulates on an unsubsidized loan will be capitalized and added to the principal balance. A student can reduce interest costs on the loan by continuing to make monthly interest payments during periods when the repayment of principal is deferred (in-school, grace, and deferment).

DETERMINING FINANCIAL NEED

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

Cost of Attendance

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

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

Expected Family Contribution (EFC)

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

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

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

Cost of Attendance

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

Maximum for Subsidized Stafford:

Cost of Attendance
- Expected Family Contribution
- Estimated Financial Assistance
= Maximum Loan Amount

Maximum for Unsubsidized Stafford and for PLUS:

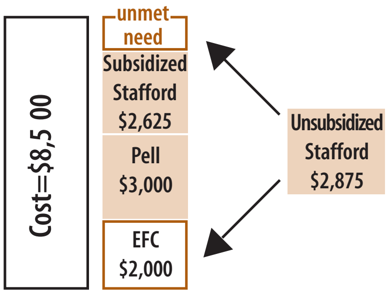
Cost of Attendance
- Estimated Financial Assistance
= Maximum Loan Amount

Example of combined subsidized and unsubsidized Stafford

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

Offsetting the EFC Example:

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



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

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

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

Estimated Financial Assistance

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

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

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

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

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

Considering grants and subsidized loans first

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

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

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

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

PARENT BORROWER ELIGIBILITY

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

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

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

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

Parent Eligibility for PLUS

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

Student must be eligible for FSA for parent to borrow PLUS

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

Parent SSN and Certifications

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

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

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

Adverse Credit History

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

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

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

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

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

REFUSING TO ORIGINATE/CERTIFY A LOAN

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

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

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

FFEL LENDER OF LAST RESORT

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

Reducing the origination fee
The lender may choose to deduct less than the full amount of the origination fee from Stafford loan disbursements, but it must observe a consistent policy for *all* of the Stafford Loans that it makes to borrowers who live in the same state or attend school in the same state.
Aside from the borrower's state of residence or the state where the school is located, the lender is only permitted to make a distinction for two categories of borrowers—it may choose not to deduct the full origination fee for its borrowers who qualify for a subsidized Stafford Loan or who have an EFC low enough to qualify for a Pell Grant.
The lender must apply the same policy to its subsidized and unsubsidized Stafford Loans.
(See 34 CFR 682.202(c))

LOAN FEES

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

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

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

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