

# 1 Borrower Eligibility

Students and parents applying for Direct Loans are subject to the general eligibility requirements that apply to all of the Federal Student Aid (FSA) programs. For purposes of this chapter, we will focus on those requirements that have particular significance for Direct Loans.

Most of the borrower eligibility information that we will discuss must be documented and kept in your school's records. Some of the information may need to be reported to the Department's Common Origination & Disbursement (COD) system, which will be discussed in Chapter 4.

## ■ DATA SOURCES & CONFLICTING INFORMATION

The *Free Application for Federal Student Aid (FAFSA)* includes a number of questions relating to student and parent eligibility. Some of this information, such as the student's Social Security number and default status, is automatically checked against other federal databases. The results are printed on the Institutional Student Information Record (ISIR) that we send to your school electronically for each student. You may rely on the information reported on the FAFSA (see chart on the next page), but you may need to collect further information if there are comment codes on the ISIR indicating discrepancies or the student is selected for verification.

In addition to reviewing data provided on the ISIR, your school must have an internal system to share information relevant to the student's eligibility, such as his or her academic standing. FSA regulations require a school to develop an adequate system to ensure the consistency of any data related to a student's application for FSA funds, regardless of the source of that data.

If your school has conflicting information for a student or you have any reason to believe that the student's application information is incorrect, you must resolve such discrepancies before disbursing FSA funds.

If you discover a discrepancy after disbursing FSA funds, you must reconcile the conflicting information and require the student to repay any aid for which the student wasn't eligible, unless the student is no longer enrolled for the award year and will not re-enroll. Refer to the *Application and Verification Guide* and Volume 2 of the *FSA Handbook* for more information.

## ▣ Topics

### ▶ Data sources & conflicting information

- Confirm/verify ISIR data
- School must have system to share relevant student information between school offices
- School must resolve any inconsistencies

### ▶ Enrollment requirements

- Student must be enrolled at least half-time
- Regular student in an eligible program (with exceptions)

### ▶ Default, overpayments & prior borrowing

- Student financial aid history maintained in NSLDS and included in ISIR
- Transfer students
- Bankruptcy or disability discharges

### ▶ DL eligibility for students

- Subsidized/Unsubsidized eligibility
- PLUS eligibility for graduate/professional students includes credit check

### ▶ Parent borrower eligibility for PLUS

- Biological or adoptive parent of a dependant undergraduate student
- Credit check/adverse credit history

## Checking general student eligibility requirements

The following eligibility requirements have to be checked for all students who are receiving FSA funds. These criteria are discussed in more detail in Volume 1 of the Federal Student Aid Handbook. This chart identifies the typical source of information for each category of eligibility.

### School Records

- ▲ To be eligible for FSA funds, a student must be making **satisfactory academic progress**. Minimally you must check that progress at intervals of one year or half the length of the program, whichever is less. The law specifies that by the end of the second academic year (regardless of how many credits the student has accrued), the student must have a C average or its equivalent or have an academic standing consistent with the requirement for graduation from the program.
- ▲ A student enrolled in **elementary or secondary school** is not eligible for aid from the FSA programs, even if the student is simultaneously enrolled in an eligible postsecondary program. Your admissions office may have records indicating that a student is enrolled while still in high school, so it is important that your school have a system to share this information.

### FAFSA/ISIR

There are several eligibility conditions that the student must report when completing the FAFSA:

- ▲ The student must have a **Social Security Number** and be a **U.S. citizen or eligible noncitizen**. The FAFSA includes questions for both of these items, and the responses are checked against the Social Security database and Bureau of Citizenship and Immigration Services (BCIS) records. If we cannot confirm these data items, the ISIR that you receive for the student will indicate this, and you must take steps to resolve the conflicting information, as detailed in the *Application & Verification Guide*.
- ▲ The FAFSA asks whether the student will have a **high school diploma or GED** before the school year begins. If a student reports that he or she has a diploma or GED, your school isn't required to ask for a copy, but if your school requires one for admission, then you must rely on that copy of the diploma or GED and not on the student's certification alone. If the student reports that he or she does not have a high school diploma or GED, then you may not pay the student until you document that he or she meets one of the alternative academic qualifications. (See Volume 1, Chapter 1 of the *FSA Handbook* for standards for home-schooled students and Ability-to-Benefit tests.
- ▲ The student certifies on the FAFSA that he or she is not in **default** on an FSA loan or owe an **overpayment** on an FSA grant or loan (or has made satisfactory arrangements to repay the default or overpayment). The Loan History that is included on the student's ISIR will indicate whether the student is in default or owes an overpayment based on the student's record in the National Student Loan Data System (NSLDS).
- ▲ A federal or state **drug conviction** can disqualify a student for FSA funds. The FAFSA asks whether the student has been convicted for a drug offense (possession or sale of drugs) that occurred while the student was receiving federal student aid. You may rely on the student's certification on the FAFSA unless you have conflicting information.

### Other

There are several additional general eligibility conditions that cannot be tracked through the ISIR, and are not likely to be included in your school records.

- ▲ A student can't receive FSA funds if he or she fraudulently obtained FSA funds and has not completely repaid those funds to the Department or the loan holder.
- ▲ Neither the student or parent can receive FSA funds if his or her property is subject to a judgment lien for a debt owed to the United States.

If your school receives information indicating that the student may be ineligible for these (or other) reasons, you may not pay the student FSA funds until you have documented that the situation has been resolved.

## ENROLLMENT REQUIREMENTS

Before paying Direct Loan funds to a student or parent, you must be able to document from your school records that the student meets enrollment requirements to receive aid.

Unlike the Pell Grant Program, a student must be enrolled *at least half time* to receive a Direct Loan. For this purpose, “half-time enrollment” means the student is carrying an academic workload that is *at least* one-half the minimum regulatory requirement for a full-time student. (See sidebar)

In most cases, a student must be enrolled or accepted for enrollment as a regular student in an eligible program to receive FSA funds. In summary, the key requirements for an eligible program are:

- *Program length.* Generally, the program must be at least 600 clock hours, 16 semester or trimester hours, or 24 quarter hours of undergraduate instruction offered during a minimum of 15 weeks of instruction. However, under certain conditions, an eligible program can be even shorter.
- *Accreditation and licensing.* The school must ensure that the program is included in its accreditation, and that the school is authorized by the appropriate state to offer the program (if the state licenses individual programs at postsecondary institutions).
- *Degree/certificate terminus.* The program must lead to a certificate, degree, or other recognized credential and prepare students for gainful employment in a recognized occupation.

These requirements are described in detail in the *Federal Student Aid Handbook* (see Volume 2).

There are two exceptions to the eligible program requirement that apply to Direct Loans:

- *Preparatory coursework.* A student may receive a Direct Loan for coursework that you’ve documented is necessary for the student to enroll in an eligible program. The courses must be part of an eligible program otherwise offered by the school, though the student does not have to be in that program. If enrolled at least 1/2-time in these prerequisite courses, the student is eligible for Direct Loans for this coursework, for up to 12 consecutive months.
- *Teacher certification coursework.* Under certain conditions, a student may receive Direct Loans if he or she is enrolled at least 1/2-time in required teacher certification coursework, even though it does not lead to a degree or certificate awarded by the school.

### Minimum requirements for half-time enrollment

For an undergraduate student, half-time enrollment must be at least:

- ▶ 6 semester or quarter hours per academic term, if the program uses standard terms and awards credit hours.
- ▶ 12 semester hours or 18 quarter hours over the weeks of instructional time in the academic year (or the prorated equivalent if the program is less than one academic year), if the program measures progress in credit hours but does not use terms.
- ▶ 12 clock hours per week, if the program measures progress in clock hours.

See Volume 3, Chapter 1 of the *FSA Handbook* for additional information and treatment of nonstandard terms, cooperative education, and correspondence coursework.

34 CFR 668.2

### Preparatory coursework

The student must be taking classes that are a prerequisite for admission. If the student is only taking them to raise his or her GPA in order to be admitted, the student would not qualify for loans under this exception.

### Teacher certification coursework

To qualify, the coursework must be required for elementary or secondary teacher certification or recertification in the state where the student plans to teach and must be offered in credit or clock hours (courses using direct assessment in lieu of credit or clock hours are not eligible). Optional courses that the student elects to take for professional recognition or advancement, and courses recommended by your school but not required for certification, do not qualify. You should document that the courses are required by the state for teacher certification.

## ■ DEFAULT, OVERPAYMENTS, & PRIOR BORROWING

### Resolving default status

A student or parent borrower who is in default on an FSA loan may regain FSA eligibility by:

- ▶ Making repayment in full (including consolidation).
- ▶ Making satisfactory repayment arrangements.
- ▶ Loan rehabilitation.

A person generally isn't eligible for FSA funds if he or she is in default or owes an overpayment on an FSA grant or loan, and hasn't made satisfactory repayment arrangements for the default or overpayment. The student certifies this on the FAFSA, and the processing system also checks the student's loan history on NSLDS.

A student is also ineligible if he or she inadvertently exceeded annual or aggregate loan limits. The student can regain eligibility by repaying the extra amount borrowed or making arrangements, satisfactory to the loan holder, to repay it. (See Volume 5, Chapter 1 of the *FSA Handbook*.)

### Financial aid history & NSLDS match

To help you identify students with problems such as defaulted loans, and to prevent payments that would exceed the annual or aggregate loan limits, the FAFSA processing system matches the student's FAFSA information with the student's financial aid history in the NSLDS database.

The student's financial aid history is automatically included as part of the ISIR that your school will receive for the student. You must resolve any conflicts between NSLDS and other information you have about the student before disbursing FSA funds.

Once you have received the financial aid history through NSLDS, you aren't required to check NSLDS for changes to that data before you disburse funds to the student. However, you will receive an updated ISIR for a student if there are significant changes to the student's financial aid history. If you learn from an updated ISIR or another source that the student is no longer eligible, you must not deliver or disburse any more FSA funds and must help make sure the student arranges to repay the aid for which he or she wasn't eligible.

### Transfer students

If a student transfers to your school during the award year, you'll need to review the student's NSLDS financial aid history on the student's ISIR, or on-line at the NSLDS Web site. Using the Financial Aid History, you can determine:

- Whether the student is in default or owes an overpayment on an FSA loan or grant,
- The student's balance on all FSA loans, and
- The amount and period of enrollment for all FSA loans for the award year.

In most cases, it will be sufficient to check the financial aid history on the ISIR, though there may be some cases where you might want to check NSLDS for more information.

Because the student's ISIR may not include the most recent transactions for the student, you must also identify the transfer student to NSLDS so that you can receive any updates through the Transfer Monitoring Process.

### **Effect of bankruptcy discharge or bankruptcy filing**

A student with an FSA loan or grant overpayment that has been discharged in bankruptcy remains eligible for FSA loans, grants, and work-study. A borrower doesn't have to reaffirm a loan discharged in bankruptcy in order to be eligible and aid may not be denied based solely on filing for bankruptcy or having a debt discharged in a bankruptcy.

A student who has filed for bankruptcy is eligible for further FSA funds if the borrower provides you with documentation from the holder of the debt stating it is dischargeable. A borrower who includes a non-defaulted FSA loan in an active bankruptcy claim, so that collection on the loan is stayed, is eligible for aid as long as he has no loans in default (including the stayed loan).

### **Total & permanent disability discharge**

A Perkins, Stafford, or PLUS loan borrower can have the loan discharged for a total and permanent disability, but the loans are subject to a three-year conditional period beginning on the date that the physician certifies that the borrower became totally and permanently disabled.

If a borrower whose loan is discharged wishes to take out another FSA loan, the borrower must obtain a physician's certification that he or she has the ability to engage in substantial gainful activity, and must provide other statements to you, as described in Volume 1, Chapter 4 of the *FSA Handbook*. Note that collection on a conditionally discharged loan must resume if the borrower wants to receive another loan during the 3-year conditional discharge period.



### **Total & permanent disability discharge**

The 3-year conditional period for disability discharges became effective for loans discharged on or after July 1, 2002.

**Borrowing both FFEL & DL**

A student may not borrow an FFEL Stafford loan and a DL Subsidized/Unsubsidized loan for the same enrollment period at the same school. Similarly, a parent may not borrow an FFEL PLUS and a Direct PLUS loan for the student for the same period of enrollment at the same school. However, the student and parent do not have to borrow from the same program.

A graduate/professional student may receive a Direct Subsidized/Unsubsidized Loan and an FFEL PLUS Loan for the same loan period at the same school, if the school uses FFEL for all PLUS loans. Similarly, a graduate/professional student could receive a Direct PLUS Loan and a FFEL Stafford Loan for the same loan period at the same school.

34 CFR 685.300(a)(8)

**Professional degree:**

A degree that signifies both completion of the academic requirements for beginning practice in a given profession and a level of professional skill beyond that normally required for a bachelor's degree. Professional licensure is also generally required.

Examples of a professional degree include but are not limited to Pharmacy (Pharm.D.), Dentistry (D.D.S. or D.M.D.), Veterinary Medicine (D.V.M.), Chiropractic (D.C. or D.C.M.), Law (L.L.B. or J.D.), Medicine (M.D.), Optometry (O.D.), Osteopathic Medicine (D.O.), Podiatry (D.P.M., D.P., or Pod.D.), and Theology (M.Div., or M.H.L.).

34 CFR 668.2

**Checking parent's or student's credit history in advance**

If you want to determine a borrower's credit history prior to originating the PLUS loan, you can initiate a credit check through the COD Web site using the borrower's name and Social Security number. However, you must have the borrower's written authorization before initiating the credit check.

**■ DIRECT LOAN ELIGIBILITY FOR STUDENTS**

If an undergraduate or graduate student meets the conditions described on the previous pages, you can award the student Direct Subsidized or Direct Unsubsidized loan funds based on the maximum loan limits and packaging rules described in Chapter 3.

A graduate/professional student may have additional PLUS eligibility beyond the maximum Subsidized and Unsubsidized loan limits.

A graduate/professional student is defined as a student who:

- is enrolled in a program or course above the baccalaureate level or is enrolled in a program leading to a professional degree (see sidebar),
- has completed the equivalent of at least 3 years of full-time study either prior to entrance into the program or as part of the program itself, and
- is not receiving FSA funds as an undergraduate student for the same period of enrollment.

The standard requirements of the PLUS loan program are the same for student borrowers as they were (and remain) for parent borrowers. In particular, note that the COD system performs a credit check on every Graduate/Professional PLUS applicant. If the applicant is found to have an adverse credit history, he or she may still be able to borrow a PLUS by obtaining an endorser or by successfully appealing the determination based on extenuating circumstances (documentation required).

There are two other requirements that student PLUS borrowers must meet in addition to the existing PLUS requirements for parents:

- the student must complete the FAFSA.
- the schools must determine the maximum annual Subsidized/Unsubsidized amount that the student is eligible to receive (see Chapter 3).

In addition, the school must counsel the student on the advantages of Direct Subsidized/Unsubsidized loans over PLUS loans (see Chapter 6, "Borrower Care"). However, the student is not required to receive Direct Subsidized/Unsubsidized loans as a condition for being allowed to apply for or be awarded a PLUS loan.

## ■ PARENT BORROWER ELIGIBILITY FOR PLUS

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.

To borrow a PLUS loan for a student, the parent must be the student's biological or adoptive mother or father.

- A stepparent is also eligible to borrow a PLUS loan if his or 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 FSA purposes.

A parent must meet the same citizenship and residency requirements as a student.

Similarly, a parent who is in default or owes an overpayment on an FSA grant or loan is ineligible for a PLUS loan unless he or 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 other FSA funds.

### Parent adverse credit history

When a parent completes a PLUS Master Promissory Note (MPN), he or she is authorizing the Department to perform a credit check. If the credit check indicates an adverse credit history, the student or parent may still be able to borrow a PLUS loan by:

- Finding an endorser (other than the student) who doesn't have an adverse credit history.
- Successfully appealing the determination of adverse credit history by documenting extenuating circumstances.

If the parent has an adverse credit history and can't (or chooses not to) find an endorser, a dependent student becomes eligible for the higher award limits for Unsubsidized loan funds (see Chapter 3).

You may assume that the parent is unable to borrow a PLUS loan if you can document that the parent has exceptional circumstances. Exceptional circumstances includes cases where:

- the parent receives only public assistance or disability benefits,
- the parent is incarcerated, or
- the parent's whereabouts are unknown.

If you are able to document exceptional circumstances, then you may use the higher award limits for Unsubsidized loans.



### Both parents receiving PLUS

Both parents may get a PLUS loan for the same student for the same period, as long as the total aid package does not exceed the student's cost of attendance. For more information on packaging rules, see Chapter 3.

### Default/overpayment effect on parent PLUS loans

Neither the parent nor the student may be in default or owe an overpayment on an FSA loan or grant (though a parent in default on a PLUS loan does not make a student ineligible for other aid).