3 DL Awards & Payments

This chapter will explain how you determine the loan period and the total loan **award**, as well as the dates and amounts of the individual loan **disbursements** that you report to the Common Origination and Disbursement (COD) system.

While the data for a Direct Loan is relatively basic (see below), there are several underlying rules that have to be taken into account when you determine the respective dates and amounts of awards and disbursements. In this chapter, we'll begin by explaining how you determine the amount of a loan that is made for the academic year, and then talk about determining the disbursement dates.

There are two factors limiting the DL awards that you make to your students for the academic year: loan limits and packaging.

- **Annual & aggregate loan limits** apply to DL Subsidized and Unsubsidized Loans, but not to PLUS loans. The undergraduate loan limits are based on the student'syear in school and dependency status.
- **Packaging** ensures that the student's total aid award does not exceed the student's financial need, based on cost of education. Packaging applies to PLUS loans as well as to DL Subsidized and Unsubsidized Loans.

The resulting award amount will usually be divided into two or more payments for the period of the loan. The amounts of these individual disbursements will be reported to COD, along with the anticipated disbursement dates.

Direct Loan data reported to COD

This example shows the types of information that a school would report to COD for a Direct Subsidized Loan made to a first-year dependent student who is enrolled for a full academic year that runs from September to May and has two semesters/trimesters or two nonterm payment periods. In this chapter, we'll explain how to calculate the award/disbursement amounts and how to determine when disbursements can be made.

Award Data

Award Amount Requested:	$3,500
Award Start Date:	September 7, 2008
Award End Date:	May 15, 2009
Academic Start Date:	September 7, 2008
Academic End Date:	May 15, 2009

Disbursement Data

Disbursement Number:	1
Gross Amount:	$1,750
Disbursement Date:	09/20/08
Disbursement Number:	2
Gross Amount:	$1,750
Disbursement Date:	01/12/09

Topics

- **Annual loan limits for DL Subsidized/Unsubsidized**
  - Grade level & dependency status
  - Additional eligibility for health professions students and students whose parents can't get PLUS
- **Annual loan limit progression**
- **Prorating annual loan limits**
  - Loan limit must be prorated for programs or remaining portions of program less than an academic year
- **Aggregate loan limits**
- **Packaging awards**
  - Loan amount constrained by student's cost of attendance, other estimated financial assistance, and (for Subsidized loans) the student's EFC
- **Amount & date of payments**

Checking the loan totals for students

If the student has spent his/her entire academic career at your school, your financial aid office should already know how much aid the student has received in the form of Direct Subsidized and Unsubsidized Loans.

If the student has transferred from another school, you must check the Financial Aid History section of his/her ISIR to see what prior loans the student has received. In addition, you must report the transfer student's name and identifying information to NSLDS as a part of the Transfer Monitoring Process. You may either create a list of transfer students on the NSLDS website or send the list to NSLDS as an electronic batch file through SAIG.

- NSLDS: https://www.nsldsfap.ed.gov/

Once the student is enrolled in Transfer Monitoring, NSLDS will alert you to any relevant changes in the transfer student's financial aid history—other than the default and overpayment information reported in the post-screening process—that may affect the student's current award(s).

As long as there is no conflicting information, you may rely on the financial aid history (provided on the ISIR as well as the NSLDS Web site) and the Transfer Student Monitoring process to tell you if a student is about to exceed the Direct Subsidized or Unsubsidized Loan limits.

- If you need to research the student's loan history on NSLDS, Volume 3, Chapter 6 of the FSA Handbook provides more information on how to count the Aggregate Outstanding Principal Balance on a loan, and how to distinguish the underlying loans in a Consolidation loan.

- Guides for Enrollment Reporting, Transfer Student Monitoring and other user documentation are currently posted on IFAP under "Current FSA Publications" or "On Line References."

- Also see NSLDS Newsletter #6 on IFAP for more specific information on how the OPB and Agg OPB are calculated in NSLDS.

- Technical assistance for NSLDS is available at: 1-800-999-8219

ANNUAL SUB/UNSUB LOAN LIMITS

The annual and aggregate loan limits for Subsidized and Unsubsidized loans apply to any combination of Direct Loans or prior FFEL loans.

- The annual loan limits are the maximum amounts a student may borrow for an academic year (counted either as a Scheduled Acacemic Year or a Borrower-Based Academic Year).
- The aggregate loan limits are the maximum amouns a student may borrow for all years of postsecondary study (including graduate as well as undergraduate programs).

Once a student has reached a loan limit, you may not certify a new loan for the student until he or she has repaid enough of his or her prior loans to reduce the outstanding balance below the applicable loan limit for Subsidized or Unsubsidized loans.

Note that PLUS loans have no fixed loan limits, though the total amount of a PLUS loan is limited by the student's remaining need in the packaging process. (We'll discuss packaging later in this chapter).

Dependency status & grade level

The maximum Subsidized/Unsubsidized amounts that a student can borrow are determined by the student's **dependency status** and **grade level**. When submitting Direct Loan award information to the COD system (see Chapter 4) you will be reporting both of these elements.

Dependency status for purposes of the FSA programs is based on the student's answers in Step 3 of the *Free Application for Federal Student Aid* (FAFSA). Under some circumstances, you may use professional judgment to override the dependency status for the student (see the *Application & Verification Guide*).

The FAFSA also asks the student to report his or her anticipated grade level, but since the student may not accurately interpret your school's policies regarding grade level progression, it is best to determine the student's grade level from your school's records.

Note that a student's grade level may change during the period of enrollment for which a Subsidized or Unsubsidized loan was certified. In Chapter 4, we'll explain how you can adjust the loan based on the student's increased eligibility.

Increased Unsub limits for dependent students whose parents can't get PLUS

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.

Annual Limits for Sub/Unsub Loans

	Subsidized	Total (subsidized & unsubsidized)
Dependent Undergraduates		
First Year	$ 3,500	$ 5,500
Second Year	$ 4,500	$ 6,500
Third Year and Beyond	$ 5,500	$ 7,500
Independent Undergrads & Dependent Students whose parents can't get PLUS		
First Year	$ 3,500	$ 9,500
Second Year	$ 4,500	$ 10,500
Third Year and Beyond	$ 5,500	$ 12,500
Graduate & Professional Students	$ 8,500	$ 20,500

Aggregate Limits for Sub/Unsub Loans

	Subsidized	Total (subsidized & unsubsidized)
Dependent Undergraduates	$ 23,000	$31,000
Independent Undergraduates & Dependent Students whose parents can't get PLUS	$ 23,000	$ 57,500
Graduate & Professional Students	$ 65,500	$ 138,500

The additional loan limits also apply to dependent undergraduate students whose parents are unable to borrow PLUS loans due to adverse credit or other documented exceptional circumstances. (The COD system conducts a credit check for adverse credit history, as described in Chapter 4).

About combined Sub/Unsub loan limits

Since the Subsidized loans has more favorable terms and a lower interest rate, you should award the maximum allowable Subsidized amount before awarding Unsubsidized aid.

The DL Unsubsidized amount that you may award depends on the amount of Subsidized aid that the student has been awarded. For instance, the maximum amount of Subsidized and Unsubsidized Loan assistance that you may award to a dependent first-year student is $5,500.

- If the student did not qualify for a Subsidized loan, but had high enough unmet need and/or EFC, you could award an Unsubsidized loan of $5,500 to cover unmet need and replace EFC.
- On the other hand, if you have already awarded a Subsidized loan of $2,000 to that student, he/she could receive no more than $3,500 in Unsubsidized loan funds, (again, the actual amount would depend on the student's unmet need and EFC).

Increased Unsubsidized loan limits for students whose parents can't get a PLUS loan

If a student's parent cannot obtain a PLUS loan, a dependant student is allowed to borrow additional Unsubsidized loan funds :

- additional $4,000 for the first year of study
- additional $4,000 for the second year of study
- additional $5,000 for each year of study beyond the second academic year

These amounts are the same as those available to independent students—see chart.

Increased Stafford limits for health professions students

Additional Unsubsidized eligibility for HEAL-eligible students

Schools may award the following additional Unsubsidized Loan amounts to students who are enrolled at least half-time in the following accredited health professions disciplines that were eligible under the former HEAL Program (administered by the U.S. Department of Health and Human Services). See Chapter 6, Volume 3 of the *FSA Handbook* for accreditation requirements for these programs.

- *Graduate in Public Health; Doctor of Pharmacy or Chiropractic; Doctoral Degree in Clinical Psychology; Masters or Doctoral Degree in Health Administration*
  - 9-month academic year $12,500*
  - 12-month academic year $16,667*
- *Doctor of Dentistry, Optometry, Naturopathy; Allopathic Medicine, Osteopathic Medicine, Podiatric Medicine, Veterinary Medicine, or Naturopathic Medicine*
  - 9-month academic year $20,000*
  - 12-month academic year $26,667*

Students in these programs are also eligible for higher aggregate limits for combined Subsidized/Unsubsidized loans ($224,000).

* PRORATION OF ANNUAL LOAN LIMIT FOR ACADEMIC YEAR COVERING 10 OR 11-MONTHS: For programs with an academic year covering 10 or 11 months, the annual additional unsubsidized loan limit must be prorated. If the academic year covers 10 or 11 months, the prorated annual loan limit is determined by dividing the applicable loan limit for an academic year covering 9 months by 9, and then multiplying the result by 10 or 11.

Stafford limits for preparatory & teacher certification coursework

As discussed in Volume 1, Chapter 1 of the *FSA Handbook*, a student may receive a Stafford loan for certain preparatory coursework or coursework required for teacher certification that is not part of an eligible program. Special loan limits apply in these situations:

Preparatory coursework (not to exceed 12 consecutive months)

For undergraduate degree/certificate program:

- Subsidized & Unsubsidized $2,625**
- Additional Unsubsidized for independent students and dependent undergrads whose parents can't get PLUS $6,000**

For graduate or professional program:

- Subsidized & Unsubsidized $5,500**
- Additional Unsubsidized for independent students and dependent undergrads whose parents can't get PLUS $7,000**

State-required teacher certification coursework

For a student who already has a baccalaureate degree:

- Subsidized & Unsubsidized $5,500**
- Additional Unsubsidized for independent students and dependent undergrads whose parents can't get PLUS $7,000**

Note that no additional unsubsidized loan amount is available to undergraduate students who are enrolled in preparatory coursework or teacher certification coursework.

** Loan limit is not prorated if the coursework lasts less than an academic year. See Volume 1, Chapter 6, *FSA Handbook* for more information on FSA eligibility for this coursework.

TIME-FRAME FOR ANNUAL LOAN LIMIT

The academic year is used as the basis for the annual loan limits for Direct Subsidized and Unsubsidized Loans. A student who has reached an annual loan limit cannot receive another Direct Loan of the same type (Subsidized or Unsubsidized) until he or she begins another academic year.

There are two basic methods for measuring an academic year, depending upon the program's academic calendar: the *Scheduled Academic Year* (SAY) or the *Borrower-Based Academic Year* (BBAY), as described below. (Also see the chart on the next page.)

Traditional term-based programs (SAY or BBAY1)

An SAY may only be used for credit-hour programs that have standard terms following a traditional academic year calendar. An SAY generally begins at the same time each year for all students in a program, although the summer session can be a "header" for some students, and a "trailer" for other students. For instance, an SAY at a semester school might run from early September until the end of August, encompassing Fall and Spring terms, and a summer session.

Note that under an SAY, a student will usually receive the full loan amount in the two regular semesters, and will only receive a disbursement in the summer session if he or she becomes eligible for more assistance (because of a change in dependency status or progression to a higher grade level).

You may opt to use a Borrower-Based Academic Year for students in a program that meets the criteria for an SAY. Using BBAY1, a student will generally receive a full disbursement in the Summer term, if he/she attends at least ½-time. Note that you may switch to or from an SAY or BBAY1 for the student, as long as there is no overlap.

Programs not using traditional calendar, but with terms substantially equal and at least 9 weeks (BBAY2)

You *must* use the rules for BBAY2 (an SAY cannot be used) to monitor progress in credit-hour term programs that don't use a Scheduled Academic Year (traditional academic calendar) if the terms in the program are substantially equal and at least 9 weeks in length. If the terms are not substantially equal and at least 9 weeks, you must use BBAY3 (below).

Clock hour, nonterm, & other term programs (BBAY3)

Clock hour and nonterm programs must use BBAY3, as well as term programs where the terms are *not* substantially equal and at least 9 weeks in length. In the case of programs using BBAY3, *a student doesn't progress to the next academic year until he or she completes all of the credit/clock hours and weeks of instructional time in the current payment period or academic year.*

Basic FSA academic year standards

- **standard term programs**
  2 semesters or trimesters, or
  3 quarter terms
- **nonterm credit-hour programs**
  30 weeks of instrucitional time
  24 semester or trimester credit hours or
  36 quarter credit hours
- **clock-hour programs**
  26 weeks of instrucitional time
  900 clock hours

Term-based progression
For an SAY, BBAY1, or BBAY2, the academic year ends when the calendar period associated with the terms have elapsed, regardless of how many credit hours or weeks of instruction the student completed during that period.

Progression based on hours/ weeks completed
For BBAY 3, the academic year ends when the student completes the clock or credit hours AND the weeks of instructional time.

Monitoring Annual Loan Limits with an SAY or BBAY

Credit-hour programs offered in a Scheduled Academic Year (SAY) An SAY uses 1) a traditional academic academic calendar with a least two semesters or trimesters or three quarters in the fall through spring, or 2) a comparable academic calendar wiith nonstandard SE9W terms.		**Credit-hour programs not offered in a Scheduled Academic Year, but with 1) standard terms, or 2) nonstandard SE9W terms**	**Clock-hour programs, nonterm programs, and programs with nonstandard terms that are not SE9W**
May use SAY	May use BBAY 1	Must use BBAY 2	Must use BBAY3
1) An SAY generally begins/ends at same time each year. 2) The student does not have to be enrolled in the first term of the SAY. 3) An SAY for a program must at least meet the program's FSA academic year in weeks/hours. 4) Total of all loans received within SAY (including summer trailer/header) may not exceed annual loan limit 5) Student becomes eligible for new annual loan limit after SAY calendar period has elapsed. 6) After original loan, student may receive additional loans during same SAY if: • Student did not receive maximum annual loan amount and has remaining eligibility; • Student progresses to grade level with higher annual loan limit; or • Student changes from dependent to independent. 7) Summer term may be "trailer" or "header" per: • Strict policy; • By program; or • Case by case, by student	▸ *May use BBAY 1 for all students; certain students; or certain programs* ▸ *May alternate SAY and BBAY for a student provided academic years do not overlap* 1) BBAY "floats" with the student's enrollment. 2) Student must be enrolled in first term of the BBAY (less-than-½-time enrollment is acceptable). 3) Length of BBAY must equal the number of terms in the program's SAY, excluding the summer trailer/header. • Number of hrs/wks in BBAY need not meet the regulatory requirements for an academic year if the BBAY includes summer term. • May include terms student does not attend if student could have enrolled at least ½--time. 4) Total of all loans received within BBAY may not exceed annual loan limit. 5) Student becomes eligible for new annual loan limit after BBAY calendar period has elapsed. 6) After original loan, student may receive additional loans during same BBAY if: • Student did not receive maximum annual loan amount and has remaining eligibility; • Student progresses to grade level with higher annual loan limit; or • Student changes from dependent to independent 7) Minisessions (summer or otherwise) must be combined with each other or with other terms and treated as a single standard term (affects all FSA programs) • Student need not enroll in each minisession, but must have been able to enroll at least ½-time in the combined term.	1) BBAY floats with student's enrollment. 2) Student must be enrolled in first term of the BBAY (less-than-half-time enrollment is acceptable). The BBAY may include terms student does not attend if student could have enrolled at least half-time 3) The BBAY must meet at least the minimum requirements for hours/weeks of the program's FSA academic year, and it must consist of: • at least 2 consecutive semesters or trimesters; • at least 3 consecutive quarters; or • at least the number of consecutive SE9W terms covered by the program's FSA academic year. 4) Total of all loans received within a BBAY may not exceed annual loan limit. 5) Student becomes eligible for new annual loan limit after BBAY calendar period has elapsed 6) After original loan, student may receive additional loans during same BBAY if: • Student did not receive maximum annual loan amount and has remaining eligibility; • Student progresses to grade level with higher annual loan limit; or • Student changes from dependent to independent. 7) Minisessions (summer or otherwise) must be combined with each other or with other terms and treated as a single standard term (affects all FSA programs) • Student need not enroll in each minisession, but must have been able to enroll at least 1/2-time in the combined term	▸ *BBAY 3 also applies to programs that mix nonstandard terms and standard terms that do not have an SAY* 1) BBAY floats with student's enrollment. 2) The BBAY begins with student's enrollment on at least a half-time basis. 3) BBAY must meet at least the minimum requirements for hours/weeks of the program's FSA academic year. 4) Total of all loans received within a BBAY may not exceed annual loan limit. 5a) Student becomes eligible for new annual loan limit only after successfully completing the clock or credit hours AND weeks of instructional time) n the BBAY. 5b) A student may not become eligible for next grade level annual loan limits until after completion of a BBAY. 6) After original loan, student may receive additional loans within BBAY only if: • Student did not receive maximum annual loan amount and has remaining eligibility; or • Student changes from dependent to independent

Options for traditional term-based programs: SAY/BBAY1

Example 1: Scheduled Academic Year

For simplicity's sake, we'll just look at the first 2 years of a 4-year program. The program is offered in a traditional calendar, with Fall and Spring semesters and an optional Summer session. The academic year is defined as two semesters. Using the rules for a Scheduled Academic Year, the school chooses to pay eligible loan recipients their loan awards in the Fall and Spring semesters.

	Fall	Spring	Summer
1st Year	Loan 1	Loan 1	0
2nd Year	▶ Loan 2	Loan 2	0

The student becomes eligible for a 2nd loan at the beginning of the second Fall term. Note that in this SAY, a student who attends the summer session will not be eligible for payment if he or she has received the maximum annual loan amount in Fall and Spring.

Example 2: Borrower-Based Academic Year 1

If the program uses credit hours and a Scheduled Academic Year, you have the option of using a Borrower-Based Academic Year to monitor annual limits. With BBAY1, the student becomes eligible for the next annual loan amount upon completion of the calendar period of the BBAY (usually covering 2 semesters or 3 quarters, including summer terms).

	Fall	Spring	Summer
1st School Year	Loan 1	Loan 1	▶ Loan 2
2nd School Year	Loan 2	▶ Loan 3	Loan 3

When using a BBAY in this semester program, the school can award a new loan at the completion of the first two semesters, which in this case is at the end of the Spring semester. If the student attends summer session, he or she can receive the first half of the new loan award for that term, and becomes eligible for a third loan at the conclusion of the second Fall term (▶).

Programs not using traditional calendar, but with SE9W terms: BBAY2

If a credit-hour program is not offered in a Scheduled Academic Year (with traditional academic calendar), but the program uses standard terms or nonstandard terms that are substantially equal at least 9 weeks in length, it must follow the rules for BBAY 2.

Example: Borrower-Based Academic Year 2 for 48-credit-hour program

The school offers a program in 6 modules, each 10 weeks long, with students receiving 8 semester credits for each completed module. The school defines the academic year as 24 semester hours and 30 weeks of instruction. A student progresses (▶) to the next annual loan amount when he or she succesfully completes both the 24 semester hours and at least 30 weeks of instruction.

1st Year Loan Limits	8 sem credits	8 sem credits	8 sem credits
2nd Year Loan Limits	▶ 8 sem credits	8 sem credits	8 sem credits

Clock-hour, nonterm, & other term programs: BBAY3

Example: Borrower-Based Academic Year 3 for 1800 clock-hour program

The school defines the academic year as 900 clock hours and 26 weeks of instructional time, so the program comprises two full academic years. A student progresses (▶) to the next annual loan amount when he or she succesfully completes both the 900 clock hours and at least 26 weeks of instruction.

1st Year Loan Limits	900 clock hours/26 weeks
2nd Year Loan Limits	▶ 900 clock hours/26 weeks

GRADE-LEVEL PROGRESSION

The annual loan limit for Direct Subsidized and Unsubsidized Loans increases as a student progresses in his/her studies. While FSA regulations determine the number of credit/clock hours and weeks that make up an academic year (SAY or BBAY), the regulations do not set standards for how much coursework a student must complete to advance from one grade level to the next.

Generally, a student's grade level for loan limit purposes is set according to the school's academic standards. While the student is asked to report his/her grade level on the *Free Application for Federal Student Aid*, the student's estimation may be incorrect—you must base the annual loan limits on the actual grade level determined by your school's academic policy.

Grade level progression in term-based programs

Progression to a higher grade level does not always coincide with the beginning of a new academic year in programs where progress is tracked in terms (SAY, BBAY1, BBAY2).

For instance, a student might enroll in the Fall term of his/her 2nd school year without having completed enough credits to be considered a 2nd -year student. If the student has completed the calendar period of an SAY or BBAY1/2 in the first year of study, the student would be eligible for a new annual loan limit, but at the same loan limits for first-year students ($3,500/$5,500).

If the student progresses to a grade level with a higher annual loan limit later in that same SAY or BBAY, you may award the student additional Subsidized funds based on the new loan limit. (In the example of a student who progresses to 2nd -year status, the student would now be eligible for an additional $1,000.)

Usually, the increase in the loan amount can be made as an adjustment to the student's existing loan rather than making a new loan, as we'll discuss in Chapter 4.

Grade level progression without terms (BBAY3)

For programs using BBAY3 (such as clock-hour and nonterm programs), the student will never progress to a higher grade level within an academic year. The student moves to a higher grade level only when he or she completes the academic year, as measured by the rules for BBAY3.

Additional issues with grade-level progression

Volume 3, Chapter 6 of the FSA Handbook provides further guidance on the following issues:

- The grade level for a transfer student us based on the academic credits your school accepts from the previous school. (If an associate's or bachelor's degree is required for entry into the program at your school, you must use the 3rd-year loan limits for the student.)
- A student may receive more than one loan at the same grade level, provided he/she is making satisfactory academic progress—a school may not have a policy that sets a fixed limit on the number of loans that can be received at a grade level.
- To count remedial coursework, the school's official written policy must explicitly state that remedial coursework can be counted towards the student's grade level progression.
- The Eligibility and Certification Approval Report lists programs that are less than 2 years but more than 1 year in lenght as "1-year programs"—you may use 2nd-year loan limits to award loans to students in these programs.
- A school may not link two stand-alone 1-year programs to make students in one of the programs eligible for 2nd-year loan limits.
- In a 5-year program leading to a graduate or professional degree, a school may define the first 3 or 4 years as being at an undegraduate level; with the remaining years at a graduate level.
- The FSA Handbook also gives examples of the grade level for students returning for a second undergraduate degree, undergraduate students with a previous graduate degree, and students with a BA or AA degree who are not enrolled in a graduate program.

PRORATING THE ANNUAL LOAN LIMIT

The annual maximum loan amount an undergraduate student may borrow must be prorated when the student is enrolled in a program:

- that is shorter than a full academic year; and
- that is one academic year or more in length, but is in a remaining period of study that is shorter than a full academic year.

Please bear in mind that you are prorating the *loan limit*, not the student's loan award. If the student's packaged loan award does not exceed the prorated loan limit, then the award amount is not affected by the proration.

When the program is shorter than a full academic year, the annual loan limit must be prorated by the *lesser* of the following two fractions:

$$\frac{\textbf{Weeks (of instructional time) enrolled in program}}{\textbf{Weeks (of instructional time) in academic year}}$$

or

$$\frac{\textbf{Credit/clock hours enrolled in program}}{\textbf{Credit/clock hours enrolled in academic year}}$$

When the there is a remaining period of study that is less than an academic year in length, the proration is based on credit/clock hours, never on weeks. Thus, you would only use the following fraction:

$$\frac{\textbf{Credit/clock hours enrolled in program}}{\textbf{Credit/clock hours enrolled in academic year}}$$

Retroactive prorating not required when student finishes program early

Note that in the case of a remaining period of study, proration is required only when it is known in advance that a student will be enrolled for a final period of study that is shorter than an academic year. If a student originally enrolls for a final period of study that is a full academic year in length, but completes the program early in less than a full academic year, it is not necessary to retroactively prorate the annual loan limit.

Pro-rating loan limits

Example: Program is less than an academic year

Hector is an independent student enrolled in a Web-site design and administration program at The Computer School (TCS). This is a 650-clock-hour, 28-week program, although TCS's academic year is 900 clock hours and 30 weeks long.

Program = 650 hours - 28 weeks
Academic Year = 900 hours and 26 weeks

Hector is considered a first-year student. Therefore, he may borrow up to $7,500 in a combination of Direct Subsidized and Unsubsidized Loans for the academic year, with no more than $3,500 of that amount in the form of Subsidized Loans. Since the program is less than an academic year, these loan limits must be prorated.

Reporting & recordkeeping

The total loan amount packaged for the loan period is reported to COD as the **Award Amount Requested**. The information used for packaging awards (student's cost, EFC, and estimated financial assistance), is *not* reported to the COD system. However, a school must keep this information, as well as any other information related to the borrower's eligibility, for three years after the end of the award year in which the student last attended.

Cost of attendance

In brief, allowable costs includet:

- Tuition and fees
- Books, supplies, transportation, personal, misc.
- Room and board
- Dependent care
- Study abroad expenses
- Disability expenses
- Employment expenses for co-op study
- Loan fees

Campus-Based and Stafford/PLUS are based on costs for the period of enrollment; for instance, costs for a student attending a single semester in the school year would be limited to the costs for that time period.

See Volume 3, Chapter 2 of the *FSA Handbook* for a more detailed discussion of cost of attendance, including the treatment of costs paid from other sources

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Packaging other types of federal aid

See "Packaging" in Volume 3 of the *FSA Handbook* for a full discussion of the treatment of :

- Americorps and veterans educational benefits
- Vocational rehabilitation assistance
- Bureau of Indian Affairs grants
- Reserve Educational Assistance Program (REAP) or Chapter 1607

PACKAGING THE LOAN AWARD

As with other FSA funds, Direct Loans (including PLUS) are limited by certain "packaging" rules that ensure that the student's total award does not exceed the student's financial need. When packaging Direct Loans, you will use the *gross amount* of the loan, which includes the insurance and origination fees. This is the **Award Amount Requested** that you will report to COD.

The student's need for a *Subsidized Loan* is based on three factors—

- The **cost of attendance**, which are the educational costs for the award period, including living expenses as well as tuition and fees. The school must determine the reasonable expenses that a student would incur over the period of the loan. Average charges may be used, and the school may develop standard average charges to be used for different groups of students, such as on- and off-campus living expenses, or undergraduate vs. graduate tuition and fees.
- The **Expected Family Contribution (EFC)**, which is based on the information the student reported on the FAFSA and is provided in electronic form to the school on the Insitutional Student Information Report (ISIR). The Primary and Secondary EFCs on the ISIR are based on a 9-month period of enrollment; the ISIR includes EFC numbers for longer and shorter periods of enrollment.
- The **Estimated Financial Assistance,** which includes all financial aid from other sources that the student is expected to receive for the loan award period

In essence, the packaging rules dictate that the student's total Subsidized Loan award may not exceed the student's cost of attendance minus the student's Expected Family Contribution (EFC) and the student's estimated financial assistance.

Cost of attendance
- Expected family contribution
- Estimated financial assistance

= Need for loan

The rules for Unsubsidized loans and PLUS loans are different, because they are considered entirely "self-help aid" and can "replace" the EFC. In essence then, Direct Unsubsidized Stafford Loans and PLUS loans are limited by the cost of attendance minus other estimated financial assistance.

Cost of attendance
- Estimated financial assistance

= Need for loan

Using Unsubsidized loans to replace the EFC in packaging

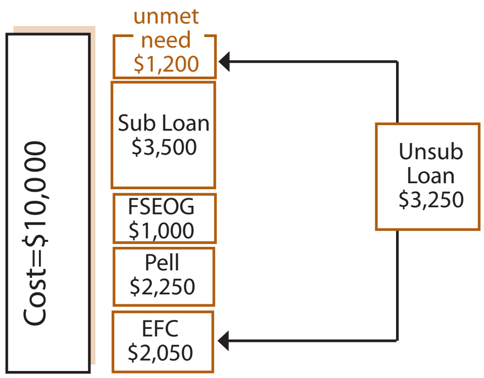
Holly Beth enrolls in Vincent Technical College as a 1st-year independent student with an $10,000 cost of attendance and VTC has received an ISIR for her with an EFC of 2,050. She is eligible for a $2,250 Pell Grant and VTC also awards her a $1,000 FSEOG. Her remaining need is $4,700, so she can receive the maximum Subsidized loan for a 1st-year student, which is $3,500.

$10,000	Cost
- 2,050	EFC
$ 7,950	Initial need

Since Holly Beth is an independent student, she can take out an additional Unsubsidized loan to meet her remaining need ($1,200), and to replace the EFC. Thus, VTC is able to award Holly Beth an additional $3,250 in Unsubsidized loan funds.

Unmet Need + EFC

$ 10,000	Cost
- 2,250	Pell Grant
- 1,000	FSEOG
- 3,500	Sub
- 3,250	Unsub
$ 0	Need



Sample aid package including Graduate/Professional PLUS

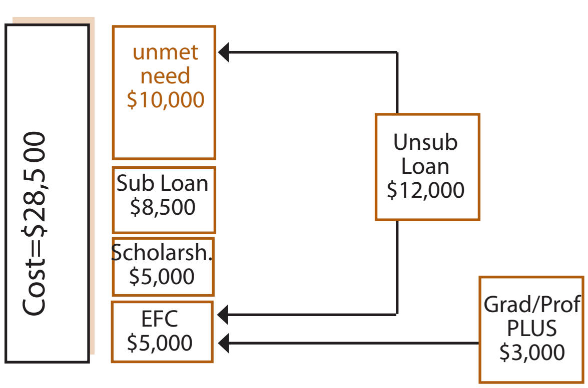
If a graduate or professional student has unmet need after receiving the maximum, he or she may be eligible for a Graduate/Professional PLUS loan.

As an example, take a student enrolled in a graduate program with a $28,500 cost of attendance. The graduate student has an EFC of $5,000 and is receiving a $5,000 scholarship. The school uses three different kinds of Direct Loans to fully meet the student's costs, starting with the maximum allowable Subsidized Loan ($8,500).

$ 28,500	Cost
5,000	EFC
$23,500	Initial Need

At this point, the unmet need is $10,000, but because the Unsubsidized loan can be used to replace the EFC, the school can award up to $12,000, bringing the total Subsidized/Unsubsidized to the $20,500 limit. The remainder of the EFC can be replaced by a Graduate/Professional loan of $3,000.

5,000	Scholarship
8,500	Sub Stafford
12,000	Unsub Stafford
3,000	Grad PLUS
$28,500	Total Aid



Reporting disbursement information

For each disbursement within the loan period, you will report the **Disbursement Date** and the **Disbursement Amount** to COD

Disbursement by payment period

For FSA purposes, payment periods are based on the the terms in the academic year, or on the completion of one-half the credit/clock hours and weeks of instructional time in the academic year or program. The payment period you use depends on the kind off academic calendar your school uses.

Prompt disbursement rules

Schools that receive Direct Loan funds through the Advance Payment or Pushed Cash methods must make disbursements (to the student's account or directly to the student or parent) as soon as administratively feasible but no later than 3 business days after receiving funds from the Department.

Student must complete an MPN for late disbursement

A student who withdraws or becomes ineligible before completing a Direct Loan MPN may only be paid a late disbursement if he/she signs a promissory note in time for the school to include the loan funds in the Return of Title IV calculation. (See Volume 5 of the *FSA Handbook*.)

DISBURSEMENT AMOUNTS & DATES

Once you've determined the total award amount, based on the annual loan limits and the student's financial need, you are ready to calculate the disbursement amounts and determine the disbursement dates that you will report to COD.

The total award for each loan usually must be divided into separate disbursements, one disbursement for each payment period within the loan period. The award data reported to COD must include disbursement dates as well as the amounts to be disbursed.

Early and delayed disbursements

In general, the earliest that a school may disburse FSA funds by crediting the student's account or by paying directly to the student or parent is 10 days before the first day of classes for that payment period. (Bear in mind that a nonterm payment period cannot begin until the student has successfully completed the coursework for the previous payment period.)

If a student is in the first year of an undergraduate program and is a first-time Direct Loan borrower, your school may not disburse the first installment of the Direct Subsidized or Unsubsidized Loan until 30 calendar days after the student's program of study begins.

Retroactive & late disbursement rules

If any payment period has elapsed before you make your first disbursement to the student, the disbursement for the next payment period may include the amount that would have been disbursed in the completed payment period (provided the student was eligible and enrolled at least half-time in that payment period).

A student who completes his/her program before being paid *must* be considered for a late disbursement of a Direct Loan if—

- the loan was originated before the date the student became ineligible, and
- an ISIR with an official EFC was processed before the student became ineligible (check the "process date" on the earliest ISIR for the school year, keeping in mind that your school may not have received the student's earliest ISIR if it was not listed).

Similarly, a student who withdraws from school before being paid a first disbursement must be considered for a late disbursement, subject to the two conditions listed above. (However, late disbursements for subsequent payment periods may not be made to students who withdraw *after* receiving a first disbursement.)

If the student became ineligible for reasons other than withdrawal or graduation—such as dropping below half-time enrollment—the school *may* make a late disbursement, but is not required to do so.

Disbursements in term-based payment periods

Term-based payment periods are used by credit-hour programs that have standard terms or nonstandard terms that are substantially equal in length. Schools must make at least one disbursement of each loan per academic term.

If the loan period is a single academic term, the school must make two payments in that term, unless it qualifies for one of the exceptions based on low default rates (see sidebar). The need to make a single-term loan often comes up when a student needs to attend an additional term to complete his/her academic program requirements. If multiple dibursements are required in a single-term loan period, the second disbursement must be made after the *calendar midpoint* of the term.

Exceptions to multiple disbursement requirement

- If your school's cohort default rate is less than 10% for the three most recent years, you may make a single disbursement for any loan period that is one semester/trimester or quarter or less (or 4 months or less, for non term-based schools or schools with non-standard terms).
- If the student is in a study-abroad program, you may pay the loan in a single disbursement if the home school's most recently calculated cohort default rate is less than 5%.

34 CFR 685.301(b)

Term-based payment periods

In this detailed example, a school elects to pay a student based on the **Scheduled Academic Year** in a program using traditional semester terms. (For simplicity's sake, we'll use a 2-year program.) The example illustrates how several different schedule variations would be handled:

• First year. The school certifies a loan for the annual maximum Subsidized Loan for the Fall/Spring semesters. (The student is eligible for the full amount based on financial need.) The student receives the disbursement for the Fall semester and completes the semester, but is unable to attend in the spring or summer because of personal reasons. No retroactive proration of the award limit or adjustment to the Fall disbursement is needed.

• Second year. The student returns to school in the Fall term of the second year, and the school certifies a Subsidized Loan for the Fall/Spring semesters at the second year loan limit. (Again, the student has sufficient financial need to receive the maximum loan amount.) The student decides to attend the summer session in the second year to catch up, but does not receive a Subsidized Loan disbursement for that term, because she has received the full annual loan amount in Fall and Spring.

• Third year. The student still needs to earn 6 credit hours to complete the program, so she enrolls as a 1/2-time student in the Fall term. The school must prorate the 3rd-year annual loan limit based the hours that the student is expected to attend (6 semester hours) divided by the hours in the academic year (24 semester hours), and Loan 3 may not exceed this prorated limit. (Also, unless the school qualifies for the low default rate waiver, it must make two disbursements of Loan 3 for the Fall semester.)

	Fall	Spring	Summer
1st Year	Loan 1		
2nd Year	▶ Loan 2	Loan 2	0
3rd Year	▶ Loan 3		

On the other hand, if the school elects to pay the same student based on a **Borrower-Based Academic Year**, the pattern of payments would be as follows.

	Fall	Spring	Summer
1st Year	Loan 1		
2nd Year	▶ Loan 2	Loan 2	▶ Loan 3
3rd Year	Loan 3		

In this BBAY scenario, note that 3rd-year loan limit is used for Loan 3, even though the student is still in the second school year. Also, note that there is no proration for a remaining period, since the Fall term completes a BBAY.

Other payment period issues

The payment periods may need to be adjusted under the following circumstances, as described in Volume 3, Chapter 1 of the FSA Handbook:

- student leaves program but reenters
- student leaves program; transfers to a new program
- student completes program; starts new program at same school within same academic year

Volume 4, Chapter 2 of the FSA Handbook also discusses how to determine nonterm payment periods when credits aren't awarded as work is completed.

Disbursements using payment periods based on hours/weeks

When the progress in the program is not measured in terms (clock hour and non-term programs, and programs with nonstandard term that are not substantially equal in length), the program is divided into payment periods that are based on the time it takes the student to complete the coursework.

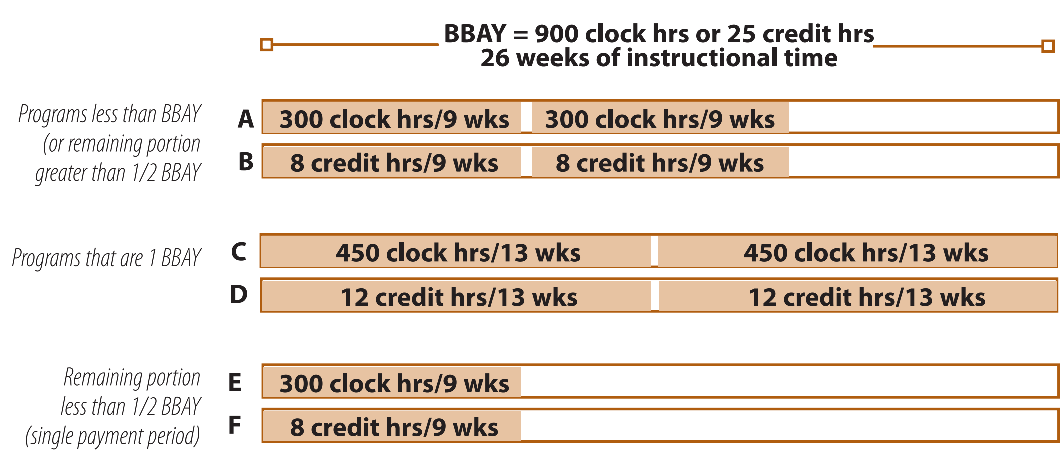
The payment period ends with the successful completion of—

- half of the weeks of instructional time in the academic year (or in the program less than an academic year); and
- half of the credit hours in the academic year/program less than an academic year.

If the program (or remainder of a program) is less than an academic year, then the payment period is ½ the weeks of instructional time AND ½ the clock or credit hours *in the program*. For programs longer than an academic year, if the remainder of a program is ½ an academic year or less, the payment period is the remainder of the program.

If the loan period is a single payment period, the loan must be disbursed in two installments, unless the school has a sufficiently low default rate (see sidebar on previous page). The second installment may not be disbursed until the student has successfully completed ½ the credit or clock hours and ½ the weeks of instructional time in the payment period.

Nonterm payment periods (based on hours/weeks)



Notes: The loan limit must be prorated in A, B, E, and F. In E and F, the school must make two disbursements for the single payment period, unless it is exempt based on low default rate.