COMMON MANUAL

Unified Student Loan Policy
July 1999

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1 Overview

Guarantor Name	Designated State(s)*
American Student Assistance (ASA)	MA, DC
California Student Aid Commission (CSAC)/EdFund	CA
Colorado Student Loan Program (CSLP)	CO
CSLF-Student Loan Foundation	CT
Education Assistance Corporation (EAC) (South Dakota)	SD
Educational Credit Management Corporation (ECMC)	VA
Finance Authority of Maine (FAME)	ME
Florida Department of Education	FL
Georgia Higher Education Assistance Corporation	GA
Great Lakes Higher Education Guaranty Corporation	WI, MN, OH, PR, VI
Illinois Student Assistance Commission (ISAC)	IL
Iowa College Student Aid Commission (ICSAC)	IA
Kentucky Higher Education Assistance Authority (KHEAA)	KY, AL
Louisiana Student Financial Assistance Commission (LASFAC)	LA
Michigan Higher Education Assistance Authority	MI
Missouri Student Loan Program (MSLP)	MO
Montana Guaranteed Student Loan Program (MGSLP)	MT
New Hampshire Higher Education Assistance Foundation	NH
New Jersey Higher Education Student Assistance Authority	NJ
New Mexico Student Loan Guarantee Corporation (NMSLGC)	NM
New York State Higher Education Services Corporation (HESC)	NY
North Carolina State Education Assistance Authority	NC
Northwest Education Loan Association (NELA)	WA, ID
NSLP, Inc.	NE
Oklahoma State Regents for Higher Education	OK
Oregon State Scholarship Commission (OSSC)	OR
Pennsylvania Higher Education Assistance Agency	PA, DE, WV
Rhode Island Higher Education Assistance Authority (RIHEAA)	RI
South Carolina Student Loan Corporation	SC
Student Loan Guarantee Foundation of Arkansas (SLGFA)	AR
Student Loans of North Dakota (SLND)	ND
Tennessee Student Assistance Corporation	TN
Texas Guaranteed Student Loan Corporation (TG)	TX
United Student Aid Funds, Inc. (USA Funds)	IN, AK, AZ, HI and the Pacific Islands, KS, MD, MS, NV, WY
Utah Higher Education Assistance Authority (UHEAA)	UT
Vermont Student Assistance Corporation (VSAC)	VT

*These are the states that the U.S. Department of Education has designated for the guarantor.
A guarantor's area of service may include clients in additional states.

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1.1 Introduction

The *Common Manual: Unified Student Loan Policy* is an introduction to and overview of participation in the Federal Family Education Loan Program (FFELP). It is designed to help train new financial aid and student loan personnel and to assist the experienced officer in finding answers to questions about federal regulations and guarantor policy.

Where possible, the guarantors that have participated in the development and distribution of this manual have agreed to adopt uniform policies. In a few cases, some guarantors have policies that are different from the uniform policies outlined in this manual. Places in this manual where such exceptions exist include a cross reference to appendix C, which details guarantor-specific policies.

The FFELP is based on a partnership among schools, lenders, guarantors, and the federal government. The failure of any one member of this group to carry out its responsibilities—as outlined in either federal regulations or this manual—directly affects other participants' ability to meet their obligations. By becoming familiar with this manual, participants can gain an appreciation for the rules and restrictions under which their counterparts operate.

1.2 Acknowledgments

The *Common Manual* was developed from inception to publication in less than one year. Acknowledgment for this accomplishment is due to many individuals and their organizations:

- To the staff of participating guarantors for their time, patience, and long hours spent going through several drafts and compromising on sensitive issues.
- To NSLP, Inc., the Montana Guaranteed Student Loan Program (MGSLP), and the Northwest Education Loan Association (NELA) for providing administrative leadership and support throughout the development of the manual.
- To the Iowa College Student Aid Commission for guiding the manual through the various draft stages, receiving numerous edits from the guarantors involved, and compiling and inserting the edits into a readable format.
- To the Texas Guaranteed Student Loan Corporation (TG) and the Oregon State Scholarship Commission (OSSC) for performing final editing on the manual.
- To USA Funds, Inc., for providing its December 1994 manual as the foundation for this manual, performing final editing on the text, and preparing the manual for publication.

It is in the spirit of partnership and cooperation that this manual was created. By developing the *Common Manual*, the participating guarantors hope to provide lenders and schools with a useful reference tool for administering the FFELP.

1.3 About the Manual

The *Common Manual* is divided into thirteen chapters and nine appendices.

Chapters

Appendices

Sections and Subsections

All of the chapters and a few of the appendices are divided into numbered sections; in many cases, these sections are further divided into subsections. Both of these levels of organization are reflected in the table of contents that accompanies each chapter and most appendices. Additional unnumbered subheadings may be included within sections or subsections, but are not included in the table of contents.

For example:

- Chapter 4 addresses school participation in the FFELP.
- Section 4.9 outlines school requirements for providing information to students.
- Subsection 4.9.A. covers student consumer information; subsection 4.9.B., entrance counseling; and subsection 4.9.C., exit counseling.

Citations

Citations are provided throughout the manual to federal statute, regulations, Dear Colleague Letters, and other U.S. Department of Education publications. Unless otherwise noted, all regulatory references are to 34 CFR. The following examples reflect how citations in this manual are treated:

[HEA 427A(f)]	Section 427A(f) of the Higher Education Act of 1965, as amended, Title IV, Part B
[§682.209]	Section 682.209 of Title 34 of the Code of Federal Regulations (34 CFR).
[DCL 95-L-178]	March 1995 Dear Colleague Letter 95-L-178.

Guarantor Contact Information

Section 1.5 of this chapter lists detailed contact information for guarantors using the *Common Manual*. Included are addresses, telephone and fax numbers for various departments of each guarantor, and, in some cases, Internet addresses.

▲ This symbol marks areas in the text of this manual where guarantors may have specific procedures for implementing a policy. A school or lender may wish to contact a guarantor for more information if not familiar with that guarantor's procedure.

Updates

Loans made under the FFELP—which consist of Federal Stafford loans (both subsidized and unsubsidized), Federal PLUS loans, and Federal Consolidation loans—routinely undergo changes in terms or conditions according to legislation and subsequent regulations. As a supplement to this manual, a guarantor may periodically provide bulletins or newsletters to participants, explaining changes to both guarantor policies and procedures and federal regulations. It is essential that lenders and schools also note guidance given in the Dear Colleague Letters and Q&A Newsletters published by the U.S. Department of Education (the Department). Copies of these reference materials may be kept in appendix E of this manual.

Revisions to the manual and common forms will be made and distributed as required by changes to the Act or federal regulations. Forms will be revised as needed to enhance "usability" or improve the quality of service provided to clients.

Additional copies of this manual may be ordered by contacting a participating guarantor.

1.4
Disclaimer

This manual has been developed in cooperation with numerous guarantors, lenders, schools, and others vitally interested in the needs of students seeking access to higher education. Schools, lenders, and servicers are responsible for administering the provisions of the Federal Family Education Loan Program (FFELP) under the federal Higher Education Act of 1965, as amended, and applicable state and federal laws and regulations. Revisions to law and regulatory guidance will supersede guidance provided in this manual. The guarantor will endeavor to notify users of the manual of these changes as they occur.

Guidance provided in this manual has been developed as an aid to compliance, but users of this manual should consult their own legal counsel and the U.S. Department of Education (the Department) when determining applicability or construction of federal or state law and regulatory requirements. This manual is not intended as legal advice in any manner, and no user of this manual shall be entitled to rely on this manual as a basis for any claim against the Department or the guarantors that have endorsed this manual for use in the student loan community. Further, no representations or warranties are made or intended by any of the participating guarantors as to the interpretations, construction, or enforcement practices of the Department under the FFELP.

Descriptions of guarantor policies, practices, and procedures in this manual are provided for the use of participating lenders and schools based upon information and materials available to all FFELP participants. If additional information or clarification is needed on a specific guarantor's policies, practices, and procedures, that guarantor should be consulted.

Failure by any program participant to comply with FFELP statutory and regulatory requirements or a guarantor's policies, practices, or procedures may result in the denial of claims or other adverse action.

Users of this manual hereby expressly release and hold harmless the participating guarantors from any and all claims, causes of action, judgments, and administrative actions arising out of the use of, or reliance upon, the manual as to any and all claims or suits or actions brought by private parties and any and all legal and administrative actions or proceedings of the Department or any state agencies.

1.5 Participating Guarantors and Contact Information

This manual is designed to be as complete as possible. However, there may be occasions when the information contained in the manual does not adequately address a situation. A guarantor may be contacted by telephone or in writing for further clarification whenever such situations occur.

The following list includes guarantors that have agreed to adopt the policies in this manual. Program participants may contact any guarantor that is not included in the following list to determine if this manual has been, or will be, adopted by that guarantor.

Participating Guarantors

American Student Assistance (ASA)
California Student Aid Commission (CSAC)/EdFund
Colorado Student Loan Program (CSLP)
Connecticut Student Loan Foundation (CSLF)
Education Assistance Corporation (EAC) (South Dakota)
Educational Credit Management Corporation (ECMC)
Finance Authority of Maine (FAME)
Florida Department of Education, Office of Student Financial Assistance
Georgia Higher Education Assistance Corporation
Great Lakes Higher Education Guaranty Corporation
Illinois Student Assistance Commission (ISAC)
Iowa College Student Aid Commission (ICSAC)
Kentucky Higher Education Assistance Authority (KHEAA)
Louisiana Student Financial Assistance Commission (LASFAC)
Michigan Higher Education Assistance Authority
Missouri Student Loan Program (MSLP)
Montana Guaranteed Student Loan Program (MGSLP)
New Hampshire Higher Education Assistance Foundation (NHHEAF)
New Jersey Higher Education Student Assistance Authority
New Mexico Student Loan Guarantee Corporation (NMSLGC)
New York State Higher Education Services Corporation (HESC)
North Carolina State Education Assistance Authority
Northwest Education Loan Association (NELA)
NSLP, Inc.
Oklahoma State Regents for Higher Education
Oregon State Scholarship Commission (OSSC)
Pennsylvania Higher Education Assistance Agency
Rhode Island Higher Education Assistance Authority (RIHEAA)
South Carolina Student Loan Corporation
Student Loan Guarantee Foundation of Arkansas (SLGFA)
Student Loans of North Dakota (SLND)
Tennessee Student Assistance Corporation
Texas Guaranteed Student Loan Corporation (TG)
United Student Aid Funds, Inc.
Utah Higher Education Assistance Authority (UHEAA)
Vermont Student Assistance Corporation (VSAC)

Guarantor Contact Information

The following pages provide contact information for each of these guarantors. Included are addresses, telephone and fax numbers for various areas of each guarantor, and, in some cases, Internet addresses.

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American Student Assistance

330 Stuart Street
Boston, MA 02116-5292
800-999-9080
www.amsa.com

Questions Regarding	Contact/Name Division	Phone
ASA Conference Information	Training Department	800-999-9080 ext. 4255
ASA Direct	Call Center	800-999-9080
A | S | A | P	School Management	800-999-9080 ext. 5009
Appeals	Call Center	800-999-9080
Application Processing	Call Center	800-999-9080
Bankruptcy Department	Account Management	800-999-9080 ext. 5016
Claims Processing	Claims Department	800-999-9080 ext. 4502
Collections	Collection Services	800-999-9080 ext. 5002
CommonLine Registration	Business Development	800-999-9080 ext. 4204
Cumulative Borrower Reports	Call Center	800-999-9080
Debit Roster Inquiries	Call Center	800-999-9080
Defaulted Loan Rehabilitation	Account Management	800-999-9080 ext. 5016
Defaulted Loan Consolidation	Account Management	800-999-9080 ext. 5016
Defaulted Loan Disputes	Dispute Unit	800-999-9080
Closed School	Dispute Unit	800-999-9080
Invalid Default	Dispute Unit	800-999-9080
Deferments/Forbearance	Repayment Assistance	800-343-8883
Delinquent Preclaim	Repayment Assistance	800-343-8883
Disbursement Information	Call Center	800-999-9080
EFT Questions	Call Center	800-999-9080
Entrance/Exit Counseling Requests	Management	800-999-9080 ext. 5009
FASTFUND Questions	Call Center	800-999-9080 ext. 5001
Guarantee Status	Call Center	800-999-9080
Guarantee Fee Billing	Call Center	800-999-9080
Late Disbursement Information	Call Center	800-999-9080
Lender/School Reviews	Lender/School Review Dept	617-728-4573
Training – Lenders & Schools	Training Department	617-728-4587
Legislative	Legislative	617-521-6087
Loan Consolidation	Call Center	800-999-9080
Loan Denials	Call Center	800-999-9080
Partial Payments/Cancellations	Call Center	800-999-9080
Payment Arrangements/Defaulted Loans	Collection Services	800-999-9080 ext. 5002
Policy Questions	Call Center	800-999-9080
Products and Services Information	Business Development	800-999-9080 ext. 4204
Regulatory Interpretation	Regulatory Advisor	617-728-4570
Repayment Information	Call Center	800-999-9080
Student Status Verification	Call Center	800-999-9080

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California Student Aid Commission (CSAC)/EdFund

U.S. Mail:
P.O. Box 419045
Rancho Cordova, CA 95741-9045

Overnight Mail:
3300 Zinfandel Drive
Rancho Cordova, CA 95670

Question Regarding	Contact		Telephone Number
Application Processing (Lender/School Inquiries Only)	Origination & Guarantee Services Branch		(916) 526-8228
		Fax	(916) 526-7937
Bankruptcy	ECMC - Bankruptcy Department		(651) 221-0566
Claims (All types)	Claim Adjudication Office		(916) 526-7363
		Fax	(916) 526-7384
Claim Averts/Recalls	Claim Adjudication Office		(916) 526-7381
		Fax	(916) 526-7393
Closed School (Borrowers)	Post Default Services		(800) 367-1590
		Fax	(916) 526-7277
Default Collections	Internal Collections Office		(800) 367-1589
		Fax	(916) 526-7517
Default Prevention	Default Prevention Office		(800) 298-9491
		Fax	(916) 526-7392
Disclosure Reprints	Origination & Guarantee Services Branch		(916) 526-8228
		Fax	(916) 526-7937
EFT (Lender)	Loan Services Branch		(916) 526-7321
		Fax	(916) 526-7315
EFT (School)	Client Services Branch		(916) 526-7321
		Fax	(916) 526-8020
False Certification (Borrowers)	Post Default Services Office		(800) 367-1590
		Fax	(916) 526-7277
False Certification (Schools & Lenders only)	Post Default Services Office		(916) 526-7253
		Fax	(916) 526-7277
FAPS Information Line			(916) 526-8260
Forms and Publications	Shipping Center		(916) 526-7282
		Fax	(916) 526-8838
Fraud	Office of the Inspector General		(800) 647-8733
Grant Inquiries (Students)	Grant Programs Customer Service		(916) 526-7590
Grant Inquiries (Schools/Lenders)	Grant Programs Customer Service		(888) 224-7268
Information Security/Access	Information Security Office		(916) 526-8148
		Fax	(916) 526-8147
IRS/FTB Offset	Post Default Services Office		(800) 367-1590
Lender Electronic Testing	Loan Services Branch		(916) 526-7321
		Fax	(916) 526-7315

California Student Aid Commission (CSAC)/EdFund (continued)

Question Regarding	Contact		Telephone Number
Lender Manifest	Origination & Guarantee Services Branch		(916) 526-8228
		Fax	(916) 526-7937
Lender of Last Resort	Origination & Guarantee Services Branch		(916) 526-8424
		Fax	(916) 526-7937
Loan Status Inquiries (Borrowers)	Origination & Guarantee Services Branch		(916) 526-8424
		Fax	(916) 526-7937
Loan Status Inquiries (Schools and Lenders only)	Origination & Guarantee Services Branch		(916) 526-8228
		Fax	(916) 526-7937
PCFAPS	Help Desk		(916) 526-7200
		Fax	(916) 526-7225
Policy/Procedures (Schools and Lenders)	Loan Services Branch		(916) 526-7321
		Fax	(916) 526-7315
Preclaims Assistance (Borrower Inquiries)	Default Prevention Office		(800) 298-9490
		Fax	(916) 526-7392
Preclaims Assistance	Default Prevention Office		(800) 298-9491
(School and Lender Inquiries Only)		Fax	(916) 526-7392
Regional Offices	Sacramento		(916) 526-7321
		Fax	(916) 526-8020
	Bay Area		(510) 749-6936
		Fax	(510) 749-6910
	Los Angeles		(562) 985-8966
		Fax	(562) 985-8968
	San Diego		(619) 497-2574
		Fax	(619) 497-2650
	Arizona		(602) 650-0955
		Fax	(602) 650-2281
	Washington		(206) 575-4488
		Fax	(206) 575-4495
Repurchases	Claim Adjudication Office		(916) 526-7382
		Fax	(916) 526-7393
Reports/Report Processing (Schools and Lenders)	Origination & Guarantee Services Branch		(916) 526-8228
		Fax	(916) 526-7937
Tapes/Cartridges	Help Desk		(916) 526-7200
		Fax	(916) 526-7225
Telecommunications	Help Desk		(916) 526-7200
		Fax	(916) 526-7225
Training (Schools and Lenders)	Loan Services Branch		(916) 526-7321
		Fax	(916) 526-7315

Colorado Student Loan Program (CSLP)

999 18th Street, Suite 425
Denver, CO 80202-2440
Telephone Number: (303) 305-3000
Fax Number: (303) 294-5076
TDD/TTY Number: (303) 305-3150 or (800) 727-5343

Questions Regarding	Department	Telephone Numbers
Accounts Payable	Accounting Department	Ext. 3368
Accounts Receivable	Accounting Department	Ext. 3269
Application Problems	Operations Department	(303) 305-3500
Claims	Repayment Services	(303) 305-3000
Compliance Issues	CTI Department	Ext. 3311
Connect	Operations Department	Ext. 3248
Consolidation Loan Information	Operations	Ext. 3326
Contracts for Lenders and Schools	Operations Department	Ext. 3312 or 3306
Corrections on Applications	Operations Department	(303) 305-3500
Debt Management Information	Market & Public Relations Dept.	Ext. 3322
Default Collection	Default Collections	(303) 305-3333
Electronic Processing	Operations Department	Ext. 3301
Foreign School Processing	Operations Department	Ext. 3206
Forms (How to Use)	CTI Department	Ext. 3311
Forms/Supplies (To order)	Office Services	Ext. 3488
Guarantee Fee Billing	Accounting Department	Ext. 3270
Information Services (IT) Help Desk	Information Services	Ext. 3323
Interest and Special Allowance Questions	CTI Department	Ext. 3311
Legal Counsel for CSLP	Administration Department	Ext. 3275
Lender of Last Resort	Marketing & Public Relations Dept.	Ext. 3265
Lender Manifest Issues	Operations	(303) 305-3500
Lender and School Hotline	Operations Department	(303) 305-3500
Litigation Issues	Litigation Department	Ext. 3259
Loan Servicing Department Issues	Loan Servicing Department	(303) 305-3050
Loan Status Information	Operations	(303) 305-3500
Loan Transfer Reporting	Operations	(303) 305-3500
Marketing Assistance	Marketing & Public Relations Dept.	Ext. 3265
NSLDS	Operations	Ext. 3446
Preclaim/Default Prevention	Repayment Services Department	Ext. (303) 305-3355
Program Reviews	CTI Department	Ext. 3311
Public Relations	Marketing & Public Relations Dept.	Ext. 3265
Regulations and Laws	CTI Department	Ext. 3311
Remote Access	Operations Department	Ext. 3301
Research and Data Assistance	Marketing & Public Relations Dept.	Ext. 3265
Suspense and Destination Processing	Operations Department	Ext. 3300
Training for Lenders and Schools	CTI Department	Ext. 3311

RECORDED INFORMATION

Application Requests	Ext. 3134
Deferment (General Information)	Ext. 3123
Deferment (Unemployment)	Ext. 3127
Deferment (Temporary Total Disability)	Ext. 3128
Deferment (School)	Ext. 3129
Directions to CSLP	Ext. 3139
Interest and Special Allowance Rates	Ext. 3118
Training Sessions for Schools & Lenders	Ext. 3113

EXTENSION BY DEPARTMENT

Accounting	Ext. 3366
Administration	Ext. 3258
CTI	Ext. 3311
Claims	Ext. 3339
Default Collections	Ext. 3333
Director’s Office	Ext. 3274
Loan Servicing	Ext. 3050
Litigation	Ext. 3259
Marketing	Ext. 3265
Records Center	Ext. 3262

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CSLF-Student Loan Foundation

525 Brook Street, Rocky Hill, CT 06067
Telephone Numbers: (800) 237-9721 or (860) 257-4001
Fax Number: (860) 563-3247

Question Regarding	Contact/Division	Extension
Application Processing	Guarantee Operations	259
Loan Adjustments	Guarantee Operations	259
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Education Assistance Corporation (EAC) (South Dakota)

115 First Avenue S.W.
Aberdeen, SD 57401
Telephone Number: (800) 592-1802
(605) 225-6423
Fax Number: (605) 225-5722

Question Regarding	Contact/Division	Telephone Number
Application Corrections	Loan Processing	(800) 592-1802
Application Processing	Loan Processing	(800) 592-1802
Bankruptcy	Pre-Claims/Collections	(800) 874-8982
Cancellations	Loan Processing	(800) 592-1802
Claim Processing	Pre-Claims/Collections	(800) 874-8982
Cohort Default Rate	Pre-Claims/Collections	(800) 874-8982
Cure Procedures	Pre-Claims/Collections	(800) 874-8982
Deferment Eligibility/Processing	Loan Processing	(800) 592-1802
EASCI Lender Servicing	EASCI	(800) 458-4011
Financial Aid Services	Financial Aid Services	(800) 874-9033
Lender Manifest/Guarantee Fee Billing	Loan Processing	(800) 592-1802
Ordering Supplies	Mailroom	(800) 592-1802
Pre-Claims Information	Pre-Claims/Collections	(800) 874-8982
Program Reviews	School & Lender Services	(800) 592-1802
Repayment Provisions	School & Lender Services	(800) 592-1802
Student Status Confirmation Report	Loan Processing	(800) 592-1802
System Operations	Data Processing	(800) 592-1802
Training and Technical Assistance	School & Lender Services	(800) 592-1802
Verification of Enrollment	Loan Processing	(800) 592-1802

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Educational Credit Management Corporation (ECMC)

http://www.ecmc.org

VIRGINIA
411 E. Franklin Street, Suite 300
Richmond, VA 23219-2243
Toll Free 1-888-775-3262
Local 804-644-6400
TDD 804-344-6704
Main Fax 804-344-6759

MINNESOTA
101 E. Fifth Street
St. Paul, MN 55101-1808
Toll Free 1-888-221-3262
Local 651-221-0566
TDD 651-221-2494
Main Fax 651-221-2495

Questions Regarding	Department/Contact Name	Phone #	E-mail Address
Application Processing	Loan Servicing	888-775-3262	
	Deb Rude	651-221-4065	drude@ecmc.org
	Joann Via	804-344-6706	jvia@ecmc.org
Bankruptcy Processing	Mary Sandness	651-221-4080	msandness@ecmc.org
Claims	Jim Fryer	651-291-3316	jfryer@ecmc.org
	Mary Sandness	651-221-4080	msandness@ecmc.org
Client Services	Randy Craig	804-344-6724	rcraig@ecmc.org
	Jan Hines	651-221-4061	jhines@ecmc.org
Collections	Carey Dubbs	651-221-4072	cdubbs@ecmc.org
Compliance	Mike Hawkes	804-344-6701	mhawkes@ecmc.org
Consolidation Loans	Kathy Sizemore	651-221-4073	ksizemore@ecmc.org
Default Prevention	Doug Hendrickson	804-344-6702	dhendrickson@ecmc.org
Lender Billing	Paul Smith	651-221-4089	psmith@ecmc.org
Newsletter/Publications	Mike Hawkes	804-344-6701	mhawkes@ecmc.org
NSLDS Processing	Kathy Sizemore	651-221-4073	ksizemore@ecmc.org
Preclaims Aversions	Jay Worthington	804-344-6708	jworthington@ecmc.org
Preclaims Requests	Cheryl Farmer	804-344-6703	cfarmer@ecmc.org
Public Information	Jan Hines	651-221-4061	jhines@ecmc.org
Regulatory Interpretation	Mike Hawkes	804-344-6701	mhawkes@ecmc.org
Supply Requests	Hope Jackson	888-775-3262 ext 8038	hjackson@ecmc.org
Training Coordinator	Mike Hawkes	804-344-6701	mhawkes@ecmc.org

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Finance Authority of Maine (FAME)

One Weston Court
119 State House Station
Augusta, ME. 04333
(800) 228-3734
(207) 626-8200
Fax (207) 626-8208
OR
PO Box 6180
Indianapolis, IN 46206-6180
(800) 428-9250

Question Regarding	**Contact**	**Telephone Number**
Application Order	Augusta, ME	(800) 228-3734
Claims	Indianapolis, IN	(317) 578-6937
CommonLine	Indianapolis, IN	(800) 348-4606
Compliance Services	Augusta, ME	(800) 228-3734
Consolidation	Augusta, ME	(800) 228-3734
Customer Assistance	Indianapolis, IN	(800) 824-7044
Lender Manifest	Indianapolis, IN	(317) 578-6328
NSLDS	Indianapolis, IN	(317) 570-8218
Post Claims Assistance	Indianapolis, IN	(800) 331-2314
Pre-Claims Assistance	Indianapolis, IN	(800) 635-3786
Regulatory/Policy Questions	Augusta, ME	(800) 228-3734
SSCR	Chandler, AZ	(602) 814-1817
WhizKid	Augusta, ME	(800) 228-3734

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Florida Department of Education
Office of Student Financial Assistance

Guaranty Agency	***Servicer***
Mailing Address: Office of Student Financial Assistance 325 West Gaines Street 255 Collins Building Tallahassee, Florida 32399-0400	Mailing Address: FGLP Processing Center Post Office Box 5380 Tallahassee, Florida 32314
Overnight Mailing Address: Office of Student Financial Assistance 107 West Gaines Street, Rm. 255 Tallahassee, Florida 32399	Overnight Mailing Address: 2670 Executive Center Circle West Suite 100 Tallahassee, Florida 32301
Telephone Number: (904) 488-4095	Telephone Number: 1-800-366-3475 (904) 942-4662
Fax Number: (904) 488-3612	Fax Number: (904) 942-8017

Question Regarding	**Telephone Number**
Address Update	
Lender	(904) 488-7043
School	(904) 488-7043
Borrower	(904) 942-4662
Bankruptcy	(904) 942-4662
Claims Closed School/False Certification Disability and Bankruptcy General and Resubmission Questions for Return/Rejected Claims Supplemental Payment Requests	(904) 671-6456
Cohort Default Rate Appeals	(904) 488-7043
Collections	(904) 942-4662
Customer Service	(904) 942-4662
Defaults Rates Reports Management Prevention (Pre-Claims)	(904) 942-4662

Florida Department of Education
Office of Student Financial Assistance (continued)

Question Regarding	Telephone Number
Deferments	(904) 942-4662
EFT (Electronic Funds Transfer)	(904) 942-4662
Entrance/Exit Interview Information	
Brochures and Forms	(904) 922-6417
Statement of Borrower Accounts	(904) 942-4662
Videotapes	(904) 922-6417
Foreign Schools	(904) 488-7043
Forms and Supplies	(904) 942-4662
Fraud	(904) 488-8122
General Program Information	(904) 942-4662
IRS Offset	(904) 942-4662
Lender and School Audit/Review	(904) 488-8122
Lender Services	(904) 488-7043
Loan Processing	(904) 942-4662
Application Inquiry and Status	
Borrower Record Inquiry	
Exception Processing	
Questions	
Reports	
Policy and Procedures	(904) 921-8948
Rehabilitation	(904) 921-8948
Repurchase	(904) 671-6473
School Services	(904) 488-7043
Training	(904) 922-6417
Wage Withholding	(904) 487-0695

Georgia Higher Education Assistance Corporation

2082 East Exchange Place, Suite 200
Tucker, Georgia 30084
Main Telephone Number: 770-414-3000 or (800) 776-6878
General FAX Number: 770-742-9089

Questions Regarding	Contact/Division	Telephone Number
Loan Application & Disbursement Status	Customer Service	770-414-3000 or 1-800-776-6878
SSP Administration	Loan Originations	770-742-9230
Application Processing	Loan Originations	770-742-9231
Private Line Service	School Liaison	1-800-414-3080
Private Line Service	Lender Liaison	1-800-443-3025
Disbursement Services	Loan Originations	770-742-9202
Electronic Funds Transfer	Loan Originations	770-742-9202
Guarantor Information	Program Administration	770-742-9130
NSLDS Lender Manifest	Program Administration	770-742-9163
NSLDS SSCR	Program Administration	770-742-9163
Compliance Inquiry	Compliance & Training	770-742-9138
Lender/School Training	Compliance & Training	770-742-9138
Cohort Default Rate Appeals	Compliance & Training	770-742-9137
Closed Schools	Compliance & Training	770-742-9137
Default Prevention	Pre-Claims Assistance	770-742-9157
Claims Information	Claims & Collections	770-742-9141
Default Collections	Claims & Collections	770-742-9151
SCHOLAR	Electronic Processing	770-742-9138
Financial Aid Consultants	Scholarship Division	770-742-9070
HOPE Scholarship	Scholarships & Grants	1-800-546-HOPE

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Great Lakes Higher Education Guaranty Corporation

Michigan	Minnesota	Ohio	Wisconsin
4700 South Hagadorn Ste. 190	444 Cedar Street, Ste. 500	4689 Hilton Corporate Drive	2401 International Lane
East Lansing, MI 48823	St. Paul, MN 55101	Columbus, OH 43232	Madison, WI 53704

Questions Regarding	Contact / Division		Telephone No.	Fax
Application Processing	Loan Processing	MI & OH	(800) 377-9095	(614) 755-7414
		MN	(800) 366-0032	(651) 290-8799
		WI & all other areas	**(800) 236-6600**	**(608) 246-1618**
Bankruptcy	Compliance & Claims (prior to default)		(608) 246-1603	(608) 246-1646
	Collection Support (after default)		(800) 354-6980	(608) 240-1301
Claims Processing	Compliance & Claims		(608) 246-1603	(608) 246-1646
Consolidation	Loan Processing	MI & OH	(800) 377-9095	
		MN, WI & all other areas	**(800) 236-6600**	
Customer Service	Lenders & Schools	MI & OH	(800) 950-0134	(614) 755-7414
		MN	(800) 676-8732	(651) 290-8799
		WI & all other areas	**(800) 236-5900**	**(608) 246-1618**
Default	Default Collections		(800) 236-3100	
Deferment / Forbearance	Lenders & Schools		(800) 236-5900	
Forms / Supply Requests	Customer Service	MI & OH	(800) 950-0134	(614) 755-7414
		MN	(800) 676-8732	(651) 290-8799
		WI & all other areas	**(800) 236-5900**	**(608) 246-1618**
Great Lakes Higher Education	Customer Service - Borrowers		(800) 236-4300	(608) 246-1608
Servicing Corporation	Lender Reports & Reporting		(608) 246-1640	(608) 246-1619
	Portfolio Conversions		(608) 246-1675	(608) 246-1694
Guaranty Fee Billing	Loan Program Accounting		(608) 246-1659	(608) 246-1434
Preclaims	Preclaims Department	MN	(800) 232-8275	(651) 605-7500
		WI & all other areas	**(800) 236-2700**	**(608) 246-1646**
Products / Services	Client Services	MI	(800) 328-4143	(517) 336-0154
		MN	(800) 236-0051	(800) 236-0052
		OH	(800) 950-0134	(614) 755-7414
		PR	(800) 967-6020	(787) 281-0836
		WI & all other areas	**(800) 236-5900**	**(608) 246-1618**
Regulation Assistance	Customer Service		(800) 236-5900	(608) 246-1618
Software Support	Technical Support		(800) 824-8725	(651) 290-7960
Student Status Confirmation	Loan Status Processing		(608) 246-1650	(608) 246-1694
Web page			**www.glhec.org**	

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Illinois Student Assistance Commission (ISAC)

1755 Lake Cook Road
Deerfield, IL 60015
Telephone Number: (800) 899-ISAC (4722)
Fax Number: (847) 831-8508 - Client Support Services
Fax Number: (847) 831-8515 - Claims and Collections

Question Regarding	Contact/Division	Telephone Number	
Appeals	Client Support Services (CSS)	800-899-4722	
Application Processing	CSS	800-899-4722	
Deferments and Forbearance	CSS	800-899-4722	
Disbursement Information	CSS	800-899-4722	
Electronic Loan Processing	Client Electronic Services	800-899-4722	
Guarantee Status	CSS	800-899-4722	
Late Disbursement	CSS or Loan Processing	800-899-4722	
Lender/School Reviews	Institutional Review	800-899-4722	
Lender/School Training	Client Field Services	800-899-4722	
Loan Consolidation	CSS	800-899-4722	
Loan Denials	CSS	800-899-4722	
Defaulted Loans	Claims & Collections Staff		
	Preclaim	800-477-4411	
	Default	800-934-3572	
Policy Questions	CSS	800-899-4722	
Regulatory Interpretation	CSS	800-899-4722	
Repayment Information	CSS	800-899-4722	
Student Status Verification (SSCR)	CSS	800-899-4722	
Secondary Market - Illinois			
Designated Account Purchase Program		800-366-5755	(student info)
(IDAPP)		800-961-IDAP	(4327)
			(lender info)

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Iowa College Student Aid Commission (ICSAC)

200 10th Street, 4th Floor
Des Moines, IA 50309-3609
Telephone Number: (515) 281-3501
(800) 383-4222
Fax Number: (515) 242-5996

Question Regarding	Contact/Division	Telephone Number
Application Processing	Servicing Center	(515) 221-9802
Disbursement Information	Servicing Center	(515) 221-9802
Guarantee Status	Servicing Center	(515) 221-9802
Late Disbursement	Servicing Center	(515) 221-9802
Lender/School Reviews	Policy Officer	(515) 242-6699
Lender/School Training	Client Services	(515) 281-3501
Loan Consolidation	Client Services	(515) 281-3501
PLUS/SLS Refinance Loans	Client Services	(515) 281-3501
Partial Payments/Cancellations	Servicing Center	(515) 221-9802
Payment Arrangements/Defaulted Loans	Collections Department	(515) 281-3501
Regulatory/Policy Questions	Policy Officer	(515) 242-6699
Scholarships/Grants	Program Administration	(515) 281-3501
Status Changes	Servicing Center	(515) 221-9802
Supplies	Client Services	(515) 281-3501

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Kentucky Higher Education Assistance Authority

1050 US 127 South
Frankfort, KY 40601
www.kheaa.com

Questions Regarding	Telephone Numbers
Alabama Student Loan Program 100 N. Union Street, Suite 308 Montgomery, AL 36104 • Alabama Student Status • Alabama School/Lender Operational Support • Default Aversion for Alabama Students	(800) 721-9720
Appeals	(800) 988-6333
Application Processing	
Schools/Lenders	(800) 617-2699
Students	(800) 928-8926
Origination Services	(800) 564-6068
Cancellations	(800) 617-2699
Claims	(502) 696-7234
Cohort Default Rates	(800) 988-6333
CommonLine	(800) 617-2699
Compliance Issues	(800) 928-8926 ext. 7276
Consolidation	(800) 617-2699
Contracts	(800) 928-8926 ext. 7281
Default Aversion	(800) 928-5327
Default Collections	(800) 668-5772
EFT	
EES	(800) 617-2699
Origination Services	(800) 564-6068
Entrance/Exit Interview Information	(800) 928-8926 ext. 7277
Forms	(800) 928-8926

Kentucky Higher Education Assistance Authority (continued)

Questions Regarding	Telephone Numbers
IRS Offsets	(800) 668-5772
Lender Manifest	(502) 696-7242
Lender/School Operational Support	(800) 617-2699
NSLDS	(502) 696-7249
Origination Services	(800) 564-6068
Policy	(800) 928-8926 ext. 7273
Pre-Claim Assistance	(800) 928-5327
Regulations	(800) 928-8926 ext. 7273
Refunds	(800) 617-2699
Repurchases	(502) 696-7275
School/Lender Operational Support	(800) 617-2699
Status Inquiries (students)	(800) 928-8926
Origination Services	(800) 564-6068
SSCR	(502) 696-7246
Technical Support	(800) 818-2678
Training	(502) 696-7277

Louisiana Student Financial Assistance Commission (LASFAC)
Louisiana Office of Student Financial Assistance (LOSFA)

P. O. Box 91202, Baton Rouge, LA 70821-9202
1885 Wooddale Boulevard, Baton Rouge, LA 70806
Telephone Number: (800) 259-5626 or (225) 922-1012
Fax Number: (225) 922-1089

Questions Regarding	Contact/Division	Telephone Number
Applications	Customer Services	(225) 922-1012
Bankruptcies	Legal	(225) 922-1034
Cancellations	Loan Origination	(225) 922-1030
Claim Processing	Claims	(225) 922-1072
Cohort Default Rate Appeals	Program Review	(225) 922-2030
Cure Procedures	Claims	(225) 922-1072
Deferment and Forbearance	Preclaim	(225) 922-1076
Guarantee Fee Billing/Refunds	Loan Origination	(225) 922-1122
Lender Manifest/Status Changes	Loan Servicing	(225) 922-1016
Litigation	Legal	(225) 922-1133
Loan Consolidation	Loan Servicing	(225) 922-1016
NSLDS	Information Systems	(225) 922-1147
Ordering Supplies	Customer Services	(800) 259-5626 Ext. 1012
Post-Claims Information	Collections	(225) 922-1086
Pre-Claims Information	Preclaim	(225) 922-1076
Program Reviews	Compliance	(225) 922-1092
Regulatory/Policy	Policy Analyst	(225) 922-1093
Student Status Confirmation	Loan Origination	(225) 922-1136
Technical Assistance	Compliance	(225) 922-1092
	Policy Analyst	(225) 922-1093
Training	Customer Services	(225) 922-1012

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Michigan Higher Education Assistance Authority

Mailing Address	Street Address
P.O. Box 30047	608 W. Allegan
Lansing, MI 48909	Hannah Bldg, 1st Floor
	Lansing, MI 48933

1-800-MGA-LOAN
(1-800-642-5626)

517-373-0760

E-Mail address: mga@state.mi.us

Fax Numbers

Main number	517-335-6703
Audit/Program Review	517-373-4939
Claims and Collections	517-335-5982
Customer and Lender Services	517-335-5983
Director's office	517-335-6792
Guaranty Services	517-241-0155
School Services	517-373-9653

MGA units are touch-tone accessible by dialing 1-800-642-5626, then 1 for access and 2 for the extension, plus the five-digit extension number of the person or unit you are calling.

QUESTIONS REGARDING	CONTACT	EXTENSION
ADDRESS UPDATE		
Borrower	Customer Services	77009
Lender	Lender Services	36076
School	School Services	36074
BANKRUPTCY	Rich Ziebarth	54539
CLAIMS		
Disability and Bankruptcy	Tom Montgomery	36622
General and Resubmission	Tom Montgomery	36622
Repurchase	Tom Montogmery	36622
Return/Rejected Claims	Tom Montgomery	36622
Supplemental Payment Requests	Tom Montogmery	36622
COLLECTIONS	Collections	55053
CUSTOMER SERVICES		
Application Inquiry and Status	Customer Serivces	77009
Borrower Record Inquiry	Customer Serivces	77009
Exception Processing	Customer Serivces	77009
Questions	Customer Serivces	77009
Reports	Customer Serivces	77009
DEFAULTS		
Appeals	Audit/Program Review	39509
Rates	Audit/Program Review	39509
Reports	Audit/Program Review	39509
Prevention (Pre-Claims)	Default Prevention	77010
LRA Rescinded	Default Prevention	77010
DEFERMENTS	Customer Serivces	77009
EFT (Electronic **F**unds **T**ransfer)	Jim Swisk	37121
ENTRANCE/EXIT INTERVIEW **INFORMATION**		
Brochures and Forms	School Services	36074
Statements of Borrower Accounts	Customer Services	77009
Videotapes	School Services	36074
FLASH (**F**ast **L**oan **A**ccess **S**ystem for **H**elp)	Automated Loan Information	Press number 1 twice to gain system access
System Problems	Toots Lapata-Victorson	30296
FOREIGN SCHOOLS	Laurie Backus	36691
FORMS AND SUPPLIES	Mail Room	34146
FRAUD	Audit/Program Review	39509

Michigan Higher Education Assistance Authority (continued)

1-800-MGA-LOAN
(1-800-642-5626)

517-373-0760

E-Mail address: mga@state.mi.us

MGA units are touch-tone accessible by dialing 1-800-642-5626, then 1 for access and 2 for the extension, plus the five-digit extension number of the person or unit you are calling.

QUESTIONS REGARDING	CONTACT	EXTENSION
GENERAL PROGRAM INFORMATION	Customer Services	77009
LENDER AND SCHOOL AUDITS AND REVIEWS	Audit/Program Review	39509
LENDER SERVICES		
Electronic Processes	Lender Services	36076
Issues/Concerns	Lender Services	36076
NSLDS Issues	Lender Services	36076
Site Visits	Lender Services	36076
LOAN PROCESSING		
Application Inquiry and Status	Customer Services	77009
Borrower Record Inquiry	Customer Services	77009
Exception Processing	Customer Services	77009
Questions	Customer Services	77009
Reports	Customer Services	77009
POLICY QUESTIONS	Audit/Program Review	39509
REHABILITATION	Collections	55053
REPORTS		
Lender	Lender Services	36076
School	School Services	36074
SCHOOL SERVICES		
Application Processing Scenarios	School Services	36074
Issues/Concerns	School Services	36074
NSLDS Issues	School Services	36074
Site Visits	School Services	36074
WhizKid™ Demonstrations	School Services	36074
SOCIAL SECURITY NUMBER DISCREPANCIES	Diane Luna	54976
TRAINING/WORKSHOPS		
Lender	Lender Services	36076
School	School Services	36074
WHIZFUND™		
New User Inquiries	Lender Services	36076
Status of Guarantee	Customer Services	77009
WHIZKID™		
New User Inquiries	School Services	36074
Product Support	USA Group™ Electronic Services	1-800-348-4606

WhizKid™ is a trademark of USA Group Guarantee Services, Inc.
WhizFund™ is a trademark of USA Group Guarantee Services, Inc.
USA Group™ is a trademark of USA Group, Inc.
(Rev. 2/23/99)

Missouri Student Loan Program (MSLP)

Main Telephone Number: (573) 751-2361
Information Center: (800) 473-6757 or (573) 751-3940
Fax Number: (573) 751-6635
http://www.mocbhe.gov

Mailing Address:
P.O. Box 6730
Jefferson City, MO 65102

Street Address:
3515 Amazonas Drive
Jefferson City, MO 65109

Department		Telephone Number
Administration		(573) 751-9441
Administrative Wage Garnishment		(573) 751-3940
ATOM (Automated Transfer of Money)		(573) 526-7356
	Fax	(573) 526-7730
Attorney		(573) 751-2361
Audits		(573) 751-1786
Claims		(800) 824-4893
Client Services		
Eastern District		(573) 335-1150
Southern District		(417) 581-5087
Northern and Central District		(573) 526-5718
Communications		(573) 751-1774
Compliance		(573) 751-8748
Information Center		(800) 473-6757
	or	(573) 751-3940
Loan Services		(800) 824-4893
Policy		(573) 751-1767
Preclaim		(800) 824-4893
Operations		(573) 751-1774
Recovery		(800) 824-4893
Research		(573) 751-1774

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Montana Guaranteed Student Loan Program (MGSLP)

Mailing Address:
PO Box 203101
Helena, MT 59620-3101

Street Address:
2500 Broadway
Helena, MT 59601-4989

Telephone Number: (406) 444-6594
Fax Number (406) 444-1869
Website: www.mgslp.state.mt.us

Questions Regarding	Contact/Division	Telephone Number
Applications Compliance Disbursements Loan Consolidation	Customer Support Email: custserv@mgslp.state.mt.us	(800) 537-7508
Default Prevention		(877) 293-8946 (Toll Free)
Post-Claims (After Default): Loan Rehabilitation Subrogation Wage Garnishment	Customer Support Email: postclaims@mgslp.state.mt.us	(800) 322-3086
Administration		(406) 444-6594

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New Hampshire Higher Education Assistance Foundation

(NHHEAF)
PO Box 877
44 Warren Street
Concord, NH 03302-0877
(603) 225-6612
(800) 525-2577
FAX (603) 224-2581

Questions Regarding	Contact Name/Division	Phone
Application Processing	Loan Processing Department	603-225-6612
Deferments	Loan Processing Department	603-225-6612
Forbearance	Loan Processing Department	603-225-6612
Disbursement Information	Loan Processing Department	603-225-6612
Guarantee Status	Loan Processing Department	603-225-6612
Late Disbursement	Loan Processing Department	603-225-6612
Lender/School Reviews	Training & Compliance Department	603-225-6612
Lender/School Training	Training & Compliance Department	603-225-6612
Loan Consolidation	Loan Processing Department	603-225-6612
Loan Denials	Loan Processing Department	603-225-6612
PLUS/SLS Refinance Loans	Loan Processing Department	603-225-6612
Partial Payments/Cancellations	Loan Processing Department	603-225-6612
Payment Arrangements/Defaulted Loans	Claims Department	603-225-6612
Policy Questions	Training & Compliance Department	603-225-6612
Regulatory Interpretation	Training & Compliance Department	603-225-6612
Repayment Information	Loan Processing Department	603-225-6612
Student Status Verification	Loan Processing Department	603-225-6612

Departments by e-mail

Loan Processing Department: loanprocessing@gsmr.org

Claims Department: claims@gsmr.org

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New Jersey Higher Education Student Assistance Authority

4 Quakerbridge Plaza
PO Box 540
Trenton, NJ 08625

Telephone Number: 800-792-8670 or 609-588-3200
Fax Number: 609-588-2390

<u>Accounting & Finance Unit:</u>	
Guarantee Fee Billing	(800) 792-8670 Ext. 4697
<u>Audits & Quality Assurance Unit:</u>	
ED Form 799 Reporting	(800) 792-8670 Ext. 4026
Program Review	(800) 792-8670 Ext. 4026
<u>Client Services Unit:</u>	
Application Processing	(800) 792-8670
OSA Update Newsletter	(800) 792-8670 Ext. 3159
Lender/School Relations	(800) 792-8670 Ext. 7346
Training	(800) 792-8670 Ext. 3214
<u>Government Relations Group:</u>	
Compliance Issues	(800) 792-8670 Ext. 7121
Regulatory Interpretation	(800) 792-8670 Ext. 7121
<u>Loan Processing Unit:</u>	
Alternative Loan Program (NJCLASS)	(800) 792-8670 Ext. 4020
CommonLine	(800) 792-8670 Ext. 3220
Lender of Last Resort	(800) 792-8670 Ext. 3220
Lender Reporting	(800) 792-8670 Ext. 4600
NSLDS	(800) 792-8670 Ext. 7873
NSLDS Lender Manifest	(800) 792-8670 Ext. 7873
SSCR Reporting	(800) 792-8670 Ext. 4600
<u>Preclaim/Claim Unit:</u>	
Claim Filing & Review	(800) 792-8670 Ext. 3306
Closed School	(800) 792-8670 Ext. 3236
Cohort Default Rate Appeals	(800) 792-8670 Ext. 3238
Due Diligence	(800) 792-8670 Ext. 3232
False Certification	(800) 792-8670 Ext. 3236
Preclaim Assistance	(800) 792-8670 Ext. 3240
<u>Post-Default Collections/Servicing Unit:</u>	
Default Collections	(800) 792-8670 Ext. 3300
Post-Default Closed School	(800) 792-8670 Ext. 3882
Post-Default False Certification	(800) 792-8670 Ext. 3882
Reinstatement/Rehabilitation	(800) 792-8670 Ext. 3300
Bankruptcy	(800) 792-8670 Ext. 3315
NJCLASS Servicing	(800) 792-8670 Ext. 4098
<u>Research Unit:</u>	
Research & Statistics	(800) 792-8670 Ext. 7304

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New Mexico Student Loan Guarantee Corporation (NMSLGC)

3900 Osuna NE
P O Box 92230
Albuquerque, NM 87199-2230
Telephone Number: (505) 345-8821
(800) 279-3070
Fax Number: (505) 344-3631

Question Regarding	Telephone Number
Administration	(505) 345-8821 ext. 381
Customer Assistance for Schools and Lenders	(800) 279-3070 ext. 471
Customer Assistance for Students	(800) 279-5063 ext. 471
Compliance and Program Review	(505) 345-8821 ext. 419
Customer Service and Training	(505) 345-8821 ext. 364, ext. 377
Claims	(505) 345-8821 ext. 334
Post Claim: Loan Rehabilitation Subrogation Wage Garnishment	(800) 279-5063 ext. 461
NSLDS	(505) 345-8821 ext. 461

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New York State
Higher Education Services Corporation (HESC)

99 Washington Ave.
Albany, NY 12255

GENERAL TELEPHONE NUMBERS	
Information	(888) NYSHESC
Application Status Inquiry	(800) 642-6234
Default Prevention and Collection	(800) 666-0991
Servicer Unit - Borrower Loan Service Complaints	(800) 808-1790
BUREAU OF STUDENT AND SCHOOL SERVICES	
Manager	(518) 473-1680
Solutions Team	(518) 473-0480
Loan Processing	(518) 473-1688
Student Certification	(518) 473-1677
Renewed Eligibility for Financial AID/Title IV Aid (REFA, RETA)	(518) 486-5366
School Information Update	(518) 474-2211
OFFICE OF DEFAULT PREVENTION AND RECOVERY SERVICES	
Assistant Vice President	(518) 402-1478
Director	(518) 402-1240
Lender and School Information and Assistance Unit	(800) 666-0991
Default Repurchases	(800) 666-0991
Litigation and Vendor Collection	(800) 666-0991
BUREAU OF GUARANTEED LOAN FINANCE	
Assistant Vice President	(518) 402-1478
Director	(518) 402-1219
Default Purchase	(518) 402-1533
PCA/Claim Processing	(518) 402-1313
Rehabilitation	(518) 402-1532
Disability	(518) 402-1258
BUREAU OF PROGRAM POLICY AND INSTITUTIONAL REVIEW	
Director	(518) 473-1575
Program Policy	(518) 473-3986
Institutional Review	(518) 473-3986
OFFICE OF COUNSEL	
Deputy Counsel	(518) 474-1880
Bankruptcy	(518) 473-1581
TRAINING AND INFORMATION SERVICES	
Director	(518) 474-2844
Field Services	(518) 473-3469
Training and Outreach	(518) 473-3469
Product Development and Communication Services	(518) 473-4096
DEBT MANAGEMENT INITIATIVES	(518) 474-2844
Advocate Unit	(888) 215-0196

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North Carolina State Education Assistance Authority
Guarantee Agency

Inquiries Concerning Students, Schools, Lending and Servicing Prior to Default, Contact

College Foundation Inc.
PO Box 12100
Raleigh, NC 27605
Telephone Number: 919/834-2893
800/532-2832
Fax: 919/821-3139

Prior to Default

Question Regarding	Contact/Division	Telephone Number
School Inquiries:		
Adjustments	Interim Servicing	800/532-2832 or 919/834-2893
Application Processing	Loan Origination	800/532-2832 or 919/834-2893
Deferments/Forbearance	Repayment Services	800/532-2832 or 919/834-2893
Electronic Services	Electronic Specialist	800/532-2832 or 919/834-2893
Clearinghouse	Interim Servicing	800/532-2832 or 919/834-2893
CommonLine	Electronic Specialist	800/532-2832 or 919/834-2893
EFT	Electronic Specialist	800/532-2832 or 919/834-2893
LineSS Software	Electronic Specialist	800/532-2832 or 919/834-2893
NSLDS	Interim Servicing	800/532-2832 or 919/834-2893
NC Student Incentive Grant	Grant Coordinator	800/532-2832 or 919/834-2893
Repayment	Special Collections	800/532-2832 or 919/834-2893
School Services:		
General Information	Program Information	800/532-2832 or 919/834-2893
Exit Counseling	Financial Aid Information Supervisor	800/532-2832 or 919/834-2893
Publications	Program Information	800/532-2832 or 919/834-2893
Policy/Regulation Inquiries	Financial Aid Information Supervisor	800/532-2832 or 919/834-2893
Student Status Verification	Interim Servicing	800/532-2832 or 919/834-2893
Borrower Inquiries:		
Prior to Repayment	Program Information	888/CFI-6400 or 919/821-4771
Repayment	Collection Services	800/722-2838 or 919/821-4743

Inquiries After A Borrower Has Gone Into Default, Contact

North Carolina State Education Assistance Authority
PO Box 14002
Research Triangle Park, NC 27709-4002
800/544-1644
Fax: 919/549-8481

After Default

Question Regarding	Contact/Division	Telephone Number
Compliance School Questions	Claim Accounting & Compliance	800/544-1644
Loans in Default	Repayment Services	800/544-1644
Accounts in Litigation	Legal Affairs	800/544-1644
NSLDS	Claim Accounting & Compliance	800/544-1644

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Northwest Education Loan Association (NELA)

500 Colman Building
811 First Avenue
Seattle, WA 98104
Telephone Number: 800-562-3001 or (206) 461-5300
Fax Number: (206) 461-5449 or (206) 461-5488

Question Regarding	Contact/Division	Extension
LENDER AND SCHOOL QUESTIONS		
Guaranty Processing:	Guaranty Processing	ext. 471
Expressway Processing:		
Loan Origination	Expressway Services	ext. 362
Escrow Disbursements	Expressway Services	ext. 418
Cancellations, Refunds, Loan Adjustment Process (LAP)	Disbursement Services	ext. 480
Lender and School Reporting	Guaranty Services	ext. 369
Delinquent Account Reporting	Pre-claims Assistance	ext. 389
Claim Filing Procedures	Claims Processing	ext. 346
Defaulted Accounts	Collections	ext. 401
Regulations, Compliance and Policies, Technical Program Support	Policy and Program Assistance	
Lenders		ext. 323
Schools		ext. 325
Products and Services, Training and Communications	Client Services	ext.351
Ordering Applications and Other Program Material	Program Services	ext. 331
Electronic Services Procedures and Electronic Operational Training	System Services	ext. 426
Modem Connections and Dial-up Procedures for Electronic Clients	System Services	ext. 493
BORROWER QUESTIONS		
Application, Disbursement, and Loan History	Loan Information	(800) 732-1077 or (206) 461-5470
Repayment, Deferment, and Consolidation Information	Loan Repayment Hotline	(800) 356-6924 or (206) 461-5452
Borrowers with Delinquency Reported by Lenders	Pre-Claims Assistance	(800) 552-6642 or (206) 461-5464
Defaulted Loans	Default Collections	(800) 552-0686 or (206) 461-5460

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NSLP, Inc.

Street: 1300 “O” Street, Lincoln, NE 68508
Mailing: P O Box 82507
Lincoln, NE 68501-2507
Telephone Number: (800) 735-8778 or (402) 475-8686
Fax Number: (402) 479-6658
Email address: NSLPCS@NSLP.COM

Question Regarding	**Contact/Division**	**Telephone Extension**
Application Processing	Customer Service	6300
Claim Filing and Review	Claims	6855
Customer Service	Customer Service	6300
Closed School Discharge	Program Review/Compliance	6410
Cohort Default Rate Appeals	Program Review/Compliance	6718 or 6743
Collection of Defaulted Loans	Collections	6380
Electronic Loan Processing (ELITE, CommonLine)	Lender/School Relations	6928
Electronic Products and Interfaces	Systems Administration	6819
False Certification	Program Review/Compliance	6410
Form and Publication Order	Customer Service	6300
Guarantee Fee Billing	Accounting and Finance	6637
Guarantee Processing	Customer Service	6300
Guarantee Status	Customer Service	6300
Lender Participation	Lender/School Relations	6936
Lender/School Relations	Lender/School Relations	6916
Lender and School Reporting	Customer Service	6847
Lender/School Reviews	Program Review/Compliance	6959
Lender/School Training	Lender/School Relations	6823
National Student Loan Clearinghouse	Systems Administration	6850
National Student Loan Data System	Systems Administration	6847
Policy Inquiries (Lender)	Policy and Planning	6706
Policy Inquiries (School)	Policy and Planning	6707
Preclaim Assistance	Preclaim	6800
School Participation	Lender/School Relations	6916
Student Status Change Reporting	Systems Administration	6850

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Oklahoma State Regents for Higher Education
Oklahoma Guaranteed Student Loan Program

http://www.ogslp.org

Mailing Address:
P.O. Box 3000
Oklahoma City, OK 73101-3000

Street Address:
999 NW Grand Blvd., Suite 300
Oklahoma City, OK 73118

Telephone Number: (405) 858-4300
1-800-247-0420
Fax Number: (405) 858-4390
TDD Number: (405) 858-4568
TDD Number for Defaulted Borrowers: (405) 858-4366

Question Regarding	Contact/Division	Telephone Number
Application Processing	Student Services	1-800-247-0420 ext. 340
Bankruptcy	Claims Review	1-800-247-0420 ext. 332
Claim Processing	Claims Review	1-800-247-0420 ext. 332
Cohort Default Rate	School/Lender Services	1-800-247-0420 ext. 329
Cohort Default Rate Appeals	Compliance	1-800-247-0420
Compliance	Compliance	1-800-247-0420
Customer Service - Schools/Lenders	School/Lender Services	1-800-247-0420 ext. 329
Customer Service - Students	Student Services	1-800-442-8642
Deferments and Forbearance	School/Lender Services	1-800-247-0420 ext. 329
Defaulted Loans	Recoveries	1-800-247-0420 ext. 375
Disbursement Information	Student Services	1-800-247-0420 ext. 340
Electronic Products and Services	School/Lender Services	1-800-247-0420 ext. 329
False Certification/Potential Fraud	Compliance	1-800-247-0420
Fee Billing	Student Services	1-800-247-0420 ext. 330
Forms, Supplies, & Publications	School/Lender Services	1-800-247-0420 ext. 329
Guarantee Status	Student Services	1-800-247-0420 ext. 340
Interest Rates	School/Lender Services	1-800-247-0420 ext. 329
IRS Offset	Compliance	1-800-247-0420
Late Disbursement	Student Services	1-800-247-0420 ext. 331
Legal Counsel	Legal	1-800-247-0423
Lender of Last Resort	School/Lender Services	1-800-247-0420 ext. 329
Lender/School Training	School/Lender Services	1-800-247-0420 ext. 329
Loan Consolidation	School/Lender Services	1-800-247-0420 ext. 329
NSLDS	Student Services	1-800-247-0420 ext. 340
Policy/Regulatory Questions	School/Lender Services	1-800-247-0420 ext. 329
Pre-Claims Information	Default Prevention	1-800-358-5460
Program Reviews	Compliance	1-800-247-0420
Repayment Information	Student Services	1-800-247-0420 ext. 340
Repurchase/Rehabilitation	Accounting	1-800-247-0420 ext. 267
School Closure	Compliance	1-800-247-0420
Special Allowance	School/Lender Services	1-800-247-0420 ext. 329
Student Status Confirmation Report	Student Services	1-800-247-0420 ext. 330
Wage Garnishment	Legal	1-800-777-3394

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Oregon State Scholarship Commission (OSSC)

1500 Valley River Drive, Suite 100
Eugene, OR 97401
Telephone Number: (800) 452-8807
Fax Number: (541) 687-7426

Question Regarding	Telephone Number
Agency Administration	(541) 687-7400
Agency Administration and Grants FAX	(541) 687-7419
Agency General Toll Free	(800) 452-8807
Collections	(541) 687-7366
Collections Toll Free	(800) 457-0135
Default Prevention/Claims	(541) 687-7458
Default Prevention/Claims Toll Free	(800) 261-4524
Grants and Scholarships	(541) 687-7395
Loan Program	(541) 687-7375
Loan Program, Default, and Collections FAX	(541) 687-7426

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Pennsylvania Higher Education Assistance Agency

1200 North Seventh Street • Harrisburg, PA 17102-1444
Website: www.pheaa.org

Questions Regarding	Contact/Division	Telephone Number
Application Correction/Appeals	Guaranty	Students: 1-800-692-7392 Lenders and Schools: 1-800-443-0646 Fax: 717-720-3644
Application Processing	Guaranty	1-800-443-0646 Fax: 717-720-3644
Bankruptcy	Asset Management	1-800-892-7576 Fax: 717-720-3908
Claim Payment/Cure Procedures	Asset Management	1-800-892-7576 Fax: 717-720-3908
Data*LINK* (Electronic Data Exchange)	Educational Services Group	717-720-3600 Fax: 717-720-3904
Default Collections	Asset Management	1-800-233-0751• 717-720-3400 Fax: 717-720-3909
Delaware Education Loan Services	External Operations	1-800-292-7935 • 302-577-5255 Fax: 302-577-6765
Financial Aid Training Program	Educational Services Group	717-720-3600 Fax: 717-720-3904
Guarantee Fee Reconciliation	Guaranty	1-800-443-0646 Fax: 717-720-3934
Keystone*LINK* or Universal*LINK* (Automated Loan Processing Services)	Educational Services Group	1-800-699-2908 Fax: 717-720-3904
Lender Manifest	Guaranty	1-800-443-0646 Fax: 717-720-3644
Loan Consolidation	Network Consolidation	1-800-338-5000 Fax: 717-720-3910
Need Analysis and Packaging	Educational Services Group	1-800-699-2908 Fax: 717-720-3904
Ordering Program Materials	Guaranty	1-800-443-0646 Fax: 717-720-3644
PHEAA Fund Transfer Service	Guaranty	1-800-443-0646 Fax: 717-720-3934
Preclaim Aversion	Asset Management	717-720-3400 Fax: 717-720-3909

Pennsylvania Higher Education Assistance Agency (continued)

Questions Regarding	Contact/Division	Telephone Number
Program Reviews/Institution Eligibility	Development and Regional Services	717-720-2740 Fax: 717-720-3933
Skiptracing	Asset Management	717-720-3400 Fax: 717-720-3909
Student Status Confirmation Report	Guaranty	1-800-443-0646 Fax: 717-720-3644
West Virginia Education Loan Services	External Operations	1-800-437-3692 (*WV Residents Only)* 304-345-7211 Fax: 304-345-7215

Rhode Island Higher Education Assistance Authority (RIHEAA)

560 Jefferson Boulevard
Warwick, RI 02886
(401) 736-1100
FAX (401) 737-8838

Questions Regarding	Contact Name/Division	Phone
Appeals	Marcia Larson	401-736-1161
Applications Processing	Guarantee Service Dept.	401-736-1160
Claims	Charles Totoro	401-736-1141
Deferments	Guarantee Service Dept.	401-736-1160
Forbearance	Guarantee Service Dept.	401-736-1160
Disbursement Information	Guarantee Service Dept.	401-736-1160
Guarantee Status	Guarantee Service Dept.	401-736-1160
Late Disbursement	Marcia Larson	401-736-1161
Late Guarantee	Guarantee Service Dept.	401-736-1160
Lender/School Reviews	Gregory Silva	401-736-1160
Lender/School Training	Marcia Larson	401-736-1161
Loan Consolidation	Gail Bessette	401-736-1190
Loan Denials	Guarantee Service Dept.	401-736-1160
Loan Updates/Changes	Diane Carlin	401-736-1162
PLUS/SLS Refinance Loans	Guarantee Service Dept.	401-736-1160
Partial Payments/Cancellations	Diane Carlin	401-736-1162
Payment Arrangements/Defaults	Trish Tedeschi	401-736-1121
Policy Questions	Marcia Larson/Gregory Silva	401-736-1160
Regulatory Interpretation	Marcia Larson/Gregory Silva	401-736-1160
Repayment Information	Guarantee Service Dept.	401-736-1160
Student Status Verification	Guarantee Service Dept.	401-736-1160

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South Carolina Student Loan Corporation

P.O. Box 21487
Columbia, S.C. 29221
Telephone Number: (803) 772-9480
Fax Number: (803) 772-9410

Questions Regarding	Telephone Number
Customer Assistance for Schools	(800) 488-9875
Customer Assistance for Students	
Application Processing	(803) 347-2752
Repayment Information	(800) 347-2752
Defaulted Loans	(800) 347-2752
All other areas	(803) 798-0916

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Student Loan Guarantee Foundation of Arkansas (SLGFA)

219 South Victory
Little Rock, AR 72201-1884
Telephone Number: (800) 622-3446
(501) 372-1491
Fax Number: (501) 688-7675

Question Regarding	Contact/Division	Telephone Number*
Application Processing	Loan Maintenance Department	ext. 665
Bankruptcy	Federal & Default Reporting Department	ext. 639
Claims Processing	Claim Management Department	ext. 640
Cohort Rate Appeals	Claim Management Department	ext. 640
Corporate Communications	Corporate Development & Communications	ext. 619
Default Prevention Assistance	Default Prevention Department	ext. 690
Disbursement Services	Lender Funds Department	ext. 622
IRS Offset	Default Contract Administrator	ext. 680
Legislative Information	Policy and Compliance Division	ext. 638
Default Collections	Default Contract Administrator	ext. 680
Products and Services	Corporate Development & Communications	ext. 619
Program Review/Compliance	Training & Technical Assistance Department	ext. 638
SSCR	Loan Maintenance Department	ext. 665
Supplies	Office Administration Department	ext. 650
Training and Technical Program Support	Training & Technical Assistance Department	ext. 638
Wage Garnishment	Federal & Default Reporting Department	ext. 639
Lender Fee Billings	Lender Funds Department	ext. 621

*Extensions may be reached by contacting the operator through the (800) number. To reach an extension directly, dial (501) 688-7 and the 3-digit extension listed.

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Student Loans of North Dakota (SLND)

P.O. Box 5524
Bismarck ND 58506-5524
Telephone Number: (800) 472-2166
TDD: (800) 643-3916
Fax Number: (701) 328-5716

SLND-ADMINISTRATION			INTERNET ADDRESSES
Director	Julie Kubisiak	1-701-328-5621	jakubisi@state.nd.us
Administrative Assistant	Karen Keller	328-5791	kkeller@state.nd.us
Program Development Coordinator	Beth Elkin	328-5653	belkin@state.nd.us
Program Development Coordinator	JoAnn Steckler	328-5619	jsteckle@state.nd.us
SLND-GUARANTOR			
Associate Director	Wally Erhardt	328-5654	werhardt@state.nd.us
Program Reviews	Char Feist	328-5753	cfeist@state.nd.us
Claim Processing	Diane Sperle	328-5669	dsperle@state.nd.us
Data Processing Coordinator	Karen Iverson	328-5663	kiverson@state.nd.us
Processing:			
Applications, deferments, loan transfer statements, repayment manifests and updates to enrollment status for lenders and schools	Tam Weigel	328-5754	tweigel@state.nd.us
Applications, cancellations and disbursements for lenders and schools	Janel Bosch	328-5755	jbosch@state.nd.us
New Loans:			
Supervisor	Holly Schirado	328-5751	hschirad@state.nd.us
Sr. New Loans Specialist	Marla Belohlavek	328-5774	mbelohla@state.nd.us
Cancellations/Revisions	Trudi Hogue	328-5761	thogue@state.nd.us
General New Loans Information		328-5763	
Collections:			
Supervisor	David Plum	328-5707	dplum@state.nd.us
Preclaim Assistance	Elaine Fischer	328-5680	efischer@state.nd.us
	Lori Sackmann	328-5655	lsackman@state.nd.us
Postclaim Wage Garnishments	Leslie Schmit	328-5708	lschmit@state.nd.us
Bankruptcy	Lisa Lang	328-5765	llang@state.nd.us
Skip Tracing	Lance Hill	328-5717	lrhill@state.nd.us

COLLEGE INFORMATION SERVICE
1-800-554-2717

Linda Albery	.328-5835	lalbery@state.nd.us
Laura Lange	.328-5657	llange@state.nd.us

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Tennessee Student Assistance Corporation

Parkway Towers, Suite 1950
404 James Robertson Parkway
Nashville, TN 37243-0820
Telephone Number (615) 741-1346
(800) 257-6526
Fax Number (615) 741-6101

Questions Regarding	Contact/Division	Telephone Number
Application Processing	GuaranTec, LLP.	(800)257-6528
Disbursement Information	GuaranTec, LLP.	(800)257-6528
Guarantee Status	GuaranTec, LLP.	(800)257-6528
Late Disbursement	GuaranTec, LLP.	(800)257-6528
Lender/School Reviews	Compliance Officer	(615)532-3499
Lender/School Training	Training Officer	(615)741-1346
Loan Consolidation	GuaranTec, LLP.	(800)257-6528
PLUS/SLS Refinance Loans	GuaranTec, LLP.	(800)257-6528
Partial Payments/Cancellation	GuaranTec, LLP.	(800)257-6528
Payment Arrangements/Defaulted Loans	GuaranTec, LLP.	(800)257-6528
Regulatory/Policy Questions	Loan Program Administrator	(615)741-1346
Scholarships/Grants	Grant Program Administrator	(615)741-1346
Status Changes	GuaranTec, LLP.	(800)257-6528
Supplies	GuaranTec, LLP.	(904)281-7277

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Texas Guaranteed Student Loan Corporation (TG)

U.S. Mail:	Overnight Mail:	Visitors:
P.O. Box 201725	2929 Longhorn Blvd., Ste. 106	13809 N. Hwy. 183, Ste. 100
Austin, TX 78720-1725	Austin, TX 78758	Austin, TX 78750-1240

Telephone Number: (800) 252-9743
(512) 219-5700
Fax Number: (512) 219-4525

Question Regarding	Contact/Division	Telephone Number	Fax Number
Annual Report	Communications	(800) 252-9743	(512) 219-4850
Application Processing/Resolution	Loan Guarantee Operations	(800) 446-5616	(512) 219-4641
Applications with Prior Defaults			
Guarantee Inquiries	Customer Assistance	(800) 845-6267	(512) 219-4633
Reinstated Eligibility	Collections	(800) 222-6297	(512) 219-4739
Bankruptcy	Collections	(800) 222-6297	(512) 219-4741
Borrower Change Report	Loan Guarantee Operations	(800) 446-5616	(512) 219-4641
Cancellations	Accounting	(800) 252-9743	(512) 219-4513
Claims	Claims	(800) 252-9743	(512) 219-4514
Closed School Discharge	Customer Assistance	(800) 845-6267	(512) 219-4633
Cohort Default Information	Customer Services	(800) 252-9743, ext. 4444	(512) 219-4525
Cohort Rate Appeals	Compliance Administrative Operations	(800) 252-9743	(512) 219-4619
Collections	Collections	(800) 222-6297	(512) 219-4739
Consolidation			
Technical Information	Customer Services	(800) 252-9743, ext. 4444	(512) 219-4525
Borrower Information	Customer Assistance	(800) 845-6267	(512) 219-4633
Cures/Rejects/Recalls	Claims	(800) 252-9743	(512) 219-4514
Status Inquiries	Customer Assistance	(800) 845-6267	(512) 219-4633
Default Prevention	Default Prevention	(800) 338-4752	(512) 219-4630
Deferments			
Technical Information	Customer Services	(800) 252-9743, ext. 4444	(512) 219-4525
Borrower Information	Customer Assistance	(800) 845-6267	(512) 219-4633
Demographic Update	Loan Guarantee Operations	(800) 446-5616	(512) 219-4641
Electronic Applications/Services			
General Information	Customer Services	(800) 252-9743, ext. 4444	(512) 219-4525
Technical Support	Product Support	(800) 252-9743, ext. 2222	(512) 219-4525

(Continued on Next Page)

Texas (continued)

Electronic Funds Transfer			
General Information	Customer Services	(800) 252-9743, ext. 4444	(512) 219-4525
Technical Support	Product Support	(800) 252-9743, ext. 2222	(512) 219-4525
False Certification	Compliance Administrative Operations	(800) 252-9743	(512) 219-4619
Fee Billings	Accounting	(800) 252-9743	(512) 219-4513
Forms/Publications	Customer Services	(800) 252-9743, ext. 4546	(512) 219-4525
Government Liaison	Governmental Affairs	(800) 252-9743	(512) 219-4932
Institutional Data Reports	Customer Services	(800) 252-9743, ext. 4444	(512) 219-4525
Interest Rates	Customer Services	(800) 252-9743, ext. 4444	(512) 219-4525
IRS Offset	Collections	(800) 222-6297	(512) 219-4829
Lender Manifest	Operations	(800) 252-9743, ext. 4570 or 2852	(512) 219-4603
Lender of Last Resort	Loan Guarantee Operations	(800) 446-5616	(512) 219-4641
Lottery Garnishment	Collections	(800) 222-6297	(512) 219-4741
Mapping Your Future	*Mapping Your Future*	(800) 252-9743, ext. 4539	(512) 219-4634
Media and Public Information	Communications	(800) 252-9743	(512) 219-4850
National Student Loan Data System	Operations	(800) 252-9743, ext. 4570	(512) 219-4603
SSCR	Operations	(800) 252-9743, ext. 2852	(512) 219-4603
Participation Agreements	Compliance Administrative Operations	(800) 252-9743	(512) 219-4619
Potential Fraud	Internal Audit/Investigations	(800) 252-9743	(512) 219-4619
Preclaims Assistance (RFAs)	Default Prevention	(800) 338-4752	(512) 219-4630
Professional Licensing Renewals	Collections	(800) 222-6297	(512) 219-4829
Research and Statistical Reports	Business Support and Analysis	(800) 252-9743	(512) 219-4634
Special Allowance Rates	Customer Services	(800) 252-9743, ext. 4444	(512) 219-4525
Texas Awareness Initiatives			
Events	Customer Services	(800) 252-9743, ext. 4444	(512) 219-4525
Product Orders	Customer Assistance	(800) 845-6267	(512) 219-4633
Training	Customer Services	(800) 252-9743, ext. 4444	(512) 219-4525
Wage Garnishment	Collections	(800) 222-6297	(512) 219-4741

United Student Aid Funds, Inc. (USA Funds)

Indiana
P.O. Box 6180
Indianapolis, IN 46206-6180

11100 USA Parkway
Fishers, IN 46038-9213

Arizona
P.O. Box 3028
Chandler, AZ 85244-3028

25 South Arizona Place
Chandler, AZ 85225

www.usagroup.com	• Guarantee, disbursement, and account information • Online News • Interactive repayment calculators
Customer Assistance **800-824-7044**	• General information and assistance • Status of loan applications • Loan status updates • Forms ordering • Policies and procedures Spanish Line: 800-635-3783 Fax: 317-595-1239 in Indiana, 602-814-1855 or 602-857-7755 in Arizona
Electronic Services **800-348-4606**	• WhizKid™ support and installation • CommonLine support and installation Fax: 317-578-6829 in Indiana, 602-814-1801 in Arizona
Loan Disbursement Services **317-595-1328**	• Electronic funds transfer (WhizFund™) Fax: 317-578-6848
Education Resource Center **800-428-9250, ext. 6883**	• School and lender training Fax: 317-578-4199
Marketing **800-428-9250, ext. 6560**	• Products and services • School and lender participation Fax: 317-578-6875
Default Prevention **800-635-3743**	• Delinquent accounts • Preclaim assistance Fax: 317-635-3781
Claim Management **317-578-6937**	• Claims • Cures/rejects/recalls • Closed school discharge Fax: 317-578-6289
Policy Development **317-598-4028**	• Policy and regulatory inquiries • Interest and special allowance rates • Government official inquiries • *Common Manual* Fax: 317-595-1299
Compliance Operations **317-595-1248**	• Compliance issues • Program reviews • Cohort default rates • False certification Fax: 317-595-1417 in Indiana, 602-814-1801 in Arizona
Investigations **800-331-2316**	• Fraud and abuse inquiries and reporting Fax: 317-595-1417
Loan Consolidation **800-448-3533**	• Consolidation loan applications and information Fax: 317-576-6481

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Utah Higher Education Assistance Authority (UHEAA)

355 W. North Temple, 3 Triad Center, Suite 550
Salt Lake City, UT 84180-1205
Telephone Number: (800) 418-8757
(801) 321-7200
Fax Number: (801) 321-7299
(801) 321-7198

Question Regarding	Contact/Division	Telephone Number	Fax Number
Appeals	Compliance	(801) 321-7220	(801) 321-7299
Application Processing	Guarantee Operations	(801) 321-7222	(801) 321-7198
Research and Administration	Administration	(801) 321-7206	(801) 321-7299
Deferments and Forbearance	Default Prevention	(801) 321-7246	(801) 321-7198
Policy	Policy and Training	(801) 321-7166	(801) 321-7299
Lender/School Reviews	Compliance	(801) 321-7220	(801) 321-7299
Guarantee Operations	Guarantee Operations	(801) 321-7223 (801) 321-7222	(801) 321-7198
Lender Training	Lender Services	(801) 321-7295	(801) 321-7160
System Operations	System Operations	(801) 321-7238	(801) 321-7198
School Training	Policy and Training	(801) 321-7166	(801) 321-7299
Default Prevention	Default Prevention	(801) 321-7246	(801) 321-7198
Claims Processing	Claims Department	(801) 321-7225 (801) 321-7228	(801) 321-7299
Loan Denials	Guarantee Operations	(801) 321-7222	(801) 321-7198
Defaulted Loans	Post-Claim Operations	(801) 321-7252	(801) 321-7198
Regulatory Interpretation	Policy and Training	(801) 321-7166	(801) 321-7299
Student Status Verification (SSCR)	Guarantee Operations	(801) 321-7223	(801) 321-7198
Secondary Market - Utah	Loan Purchase Program	(801) 321-7286	(801) 321-7198

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Vermont Student Assistance Corporation (VSAC)

1 Main Street, The Champlain Mill
P.O. Box 2000
Winooski, Vermont 05404-2601
(802) 655-9602
1-800-642-3177
FAX: (802) 654-3765
TTD: (802) 654-3766
TTD in State: 1-800-281-3341
Web Site: www.vsac.org

EDUCATION LOAN SERVICES PROGRAM (1-800-642-3177)

Function	Contact	Phone/Ext/Internet	
School Services	School Services Phone Group	1-888-307-8722	
	Pam Chisholm	Ext. 660	chisholm@vsac.org
School Compliance	Marcia Vance	Ext. 273	vance@vsac.org
Lender Compliance	Jaye O'Connell	Ext. 388	oconnell@vsac.org
Borrower Services	Loan Counseling Group	1-800-798-VSAC (1-800-798-8722)	
PLUS Applicant Credit Review	Credit Counseling Team	Ext. 511	

DEFAULT COLLECTIONS PROGRAM (1-800-642-3177)

Function	Contact	Phone/Ext/Internet	
Program Policies and Issues	Linda Viau	Ext. 223	viau@vsac.org
Specialized Programs for Defaulted Borrowers *(Loan rehabilitation, Loan consolidation, Renewed Title IV Eligibility)*	Rose Bean	Ext. 278	bean@vsac.org
Preclaim and Supplemental Preclaim Issues	Christine Quinn-Kuck	Ext. 211	kuck@vsac.org

VSAC FINANCIAL AID SERVICES (1-800-357-9171)

Function	Contact	Phone/Ext/Internet	
Financial Aid Services	Yvonne Whitaker	Ext. 269	whitaker@vsac.org

GRANT PROGRAM (1-800-882-4166)

Function	Contact	Phone/Ext/Internet	
Policies and Operations	Marilyn Cargill	Ext. 201	cargill@vsac.org
	Marcia Corey	Ext. 206	corey@vsac.org

OUTREACH PROGRAM (1-800-642-3177)

Function	Contact	Ext/Internet	
Policies and Programs	Diane Girard-diCarlo	Ext. 232	dicarlo@vsac.org

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2 About the FFELP

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2.1
The Federal Family Education Loan Program (FFELP)

Chapter 2 provides general information about the FFELP, the types of loans that are available in the program, and the various stages that comprise the “life” of a FFELP loan. This chapter also lists other resources a school, lender, or servicer may wish to consult for more information about the FFELP.

2.1.A.
Overview

The Federal Family Education Loan Program (FFELP) is authorized in Part B of Title IV of the Higher Education Act of 1965, as amended. Under the FFELP, students and their parents can obtain low-cost education loans to help pay for the cost of higher education.

FFELP loans are made to students and parents by lenders. The lender cannot require the borrower to provide collateral for the loan—and, in most cases, the lender does not require the borrower to be creditworthy. To protect the lender from loss in the event of the borrower’s death, disability, bankruptcy, or default, the loan is guaranteed by a guarantor. In certain circumstances, the lender also is protected if the student attends a school that closes or if the school falsely certifies the borrower’s loan application. The guarantor is reinsured by the U.S. Department of Education (the Department).
[HEA 427(a)(2)(A)]

2.1.B.
Types of Loans Available

All FFELP loans have flexible terms—both during the period when the student is in school and during the period when the loan must be repaid. During repayment, a borrower may be entitled to defer payments on the loan in certain circumstances, such as during periods of unemployment, economic hardship, or further study.

There are several types of education loans currently offered by lenders under the FFELP:

- A **subsidized Federal Stafford loan** is available to an eligible student attending a participating postsecondary school. A student who demonstrates financial need is eligible to have the federal government pay the interest on the loan to the lender until repayment of the loan begins and during any deferment periods. The student is allowed a grace period (usually six months) after leaving school or dropping below half-time enrollment before repayment begins. Repayment of the loan is scheduled over a maximum 10-year period.

- An **unsubsidized Federal Stafford loan** is available to an eligible student attending a participating postsecondary school. A student who does not demonstrate sufficient financial need is typically eligible for an unsubsidized Stafford loan. An unsubsidized Stafford loan can also be used to supplement a subsidized Stafford loan. An unsubsidized Stafford loan borrower does not have any interest paid on his or her behalf by the federal government; such a borrower is responsible for paying to the lender all interest that accrues on the loan from the time the loan is disbursed until it is paid in full. Otherwise, the terms of an unsubsidized Stafford loan are the same as those for a subsidized Stafford loan.

- A **Federal PLUS loan** is available to an eligible parent or legal guardian of a dependent undergraduate student attending a participating postsecondary school. A PLUS loan borrower must be creditworthy or must obtain a creditworthy endorser on the loan. The parent is responsible for paying to the lender the interest that accrues on the loan from the time the loan is disbursed until it is paid in full. Repayment of the loan is scheduled over a maximum 10-year period.

- A **Federal Consolidation loan** is available to a borrower who wants to combine his or her outstanding education loans into a single loan with a single monthly payment. In most cases, the borrower is responsible for paying to the lender the interest that accrues on the loan until the loan is paid in full. Consolidation loans usually have a longer repayment period and a lower monthly payment than is available on the underlying education loans.

Before July 1, 1994, **Federal SLS loans** were available to eligible students attending participating postsecondary schools. An SLS borrower must pay to the lender all interest that accrues on the loan from the time the loan is disbursed until it is paid in full. The Federal SLS Loan Program was discontinued effective July 1, 1994. At the same time, loan limits on unsubsidized Stafford loans were increased by the amounts previously available to SLS borrowers. All SLS loans first disbursed before July 1, 1994, retain the terms and conditions established under the Federal SLS Loan Program.

More information about each of these types of loans, the process a borrower follows to obtain a loan, the terms of the loan, and how schools and lenders are to handle FFELP loans is included in this manual.

2.2 The Life of a FFELP Loan

The life of a FFELP loan begins with the borrower's application and the school's certification of the borrower's eligibility. It ends when the loan is paid in full—or, in certain circumstances, when the loan is discharged. The life of a Stafford or PLUS loan spans three phases:

> **Phase 1: Origination**
> The school certifies the applicant's eligibility, and the lender approves the loan and applies for the guarantee.
>
> **Phase 2: The Interim Period**
> The school and lender manage the loan while the borrower or student is in school, and during any grace period to which the borrower is entitled.
>
> **Phase 3: Repayment**
> The lender maintains, or services, the loan from the time the borrower is to begin making payments on the loan until the loan is paid in full by the borrower or by the guarantor as a claim.

During these three phases, the school and lender each have responsibilities for ensuring that the loan is handled properly.

The two flow charts on the following pages depict the life of a Stafford loan and the life of a PLUS loan.

2.2.A. Origination

The processes for originating FFELP loans vary depending on electronic services and other arrangements among schools, lenders, and guarantors, and also according to the type of application and promissory note process used to make loans. Current application and promissory note processes are:

- The common Stafford application and promissory note is a single form used concurrently as a student borrower's application for the loan, the student borrower's promise to repay the funds, and the school's certification of the student borrower's eligibility, unless an electronic process is used for the school certification.

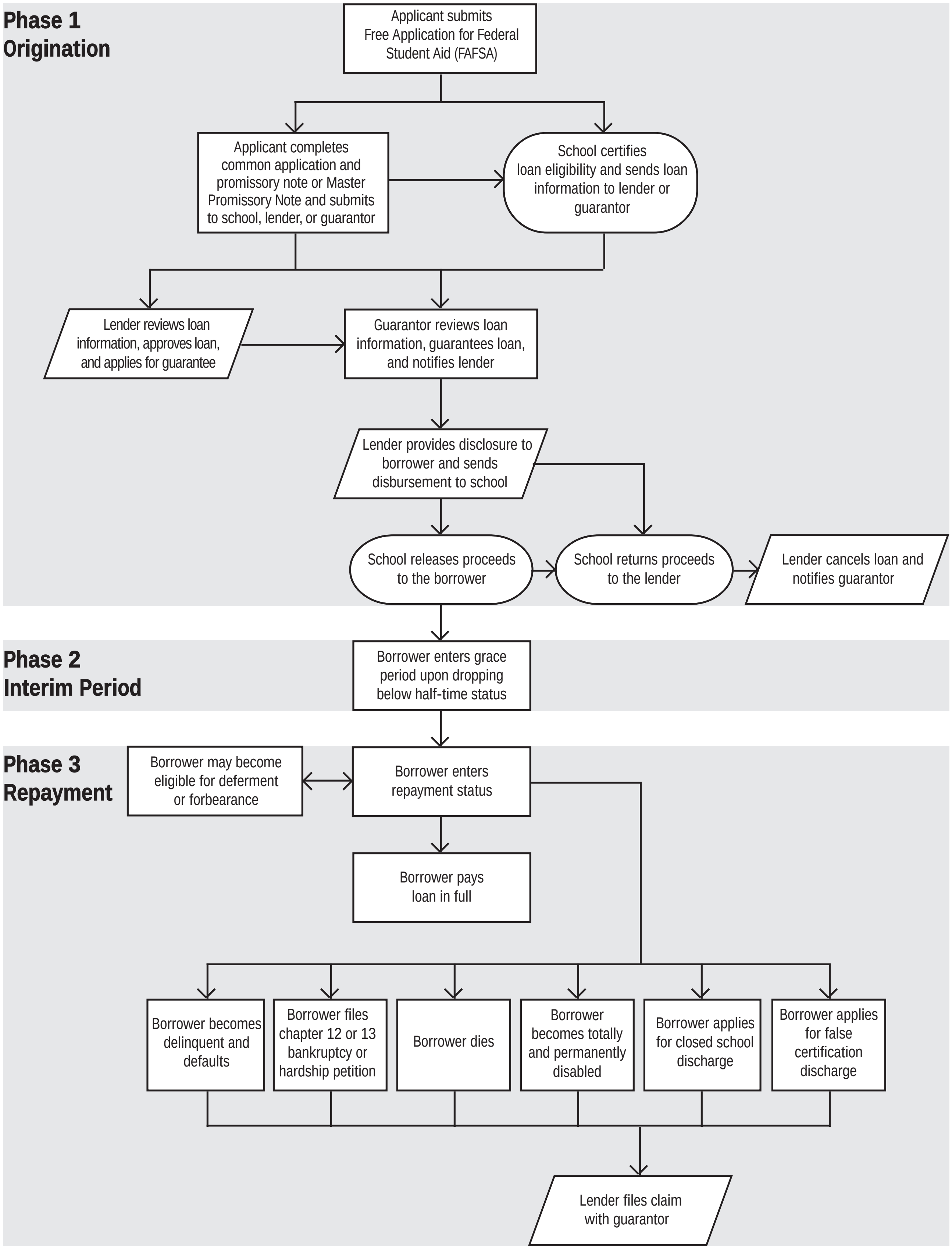
- The common PLUS application and promissory note is a single form used concurrently as a parent borrower's application for the loan, the parent borrower's promise to repay the funds, and the school's certification of both the parent borrower's and dependent student's eligibility, unless an electronic process is used for the school certification.

- The Master Promissory Note (MPN) is a Stafford promissory note that is the student borrower's promise to repay the funds, and may be used as a multi-year note. Because the MPN is only a promissory note, the borrower application and school certification processes are separate. When using an MPN, the student applies for a Stafford loan either by using the Free Application for Federal Student Aid (FAFSA) or an alternative paper or electronic school financial aid application process.

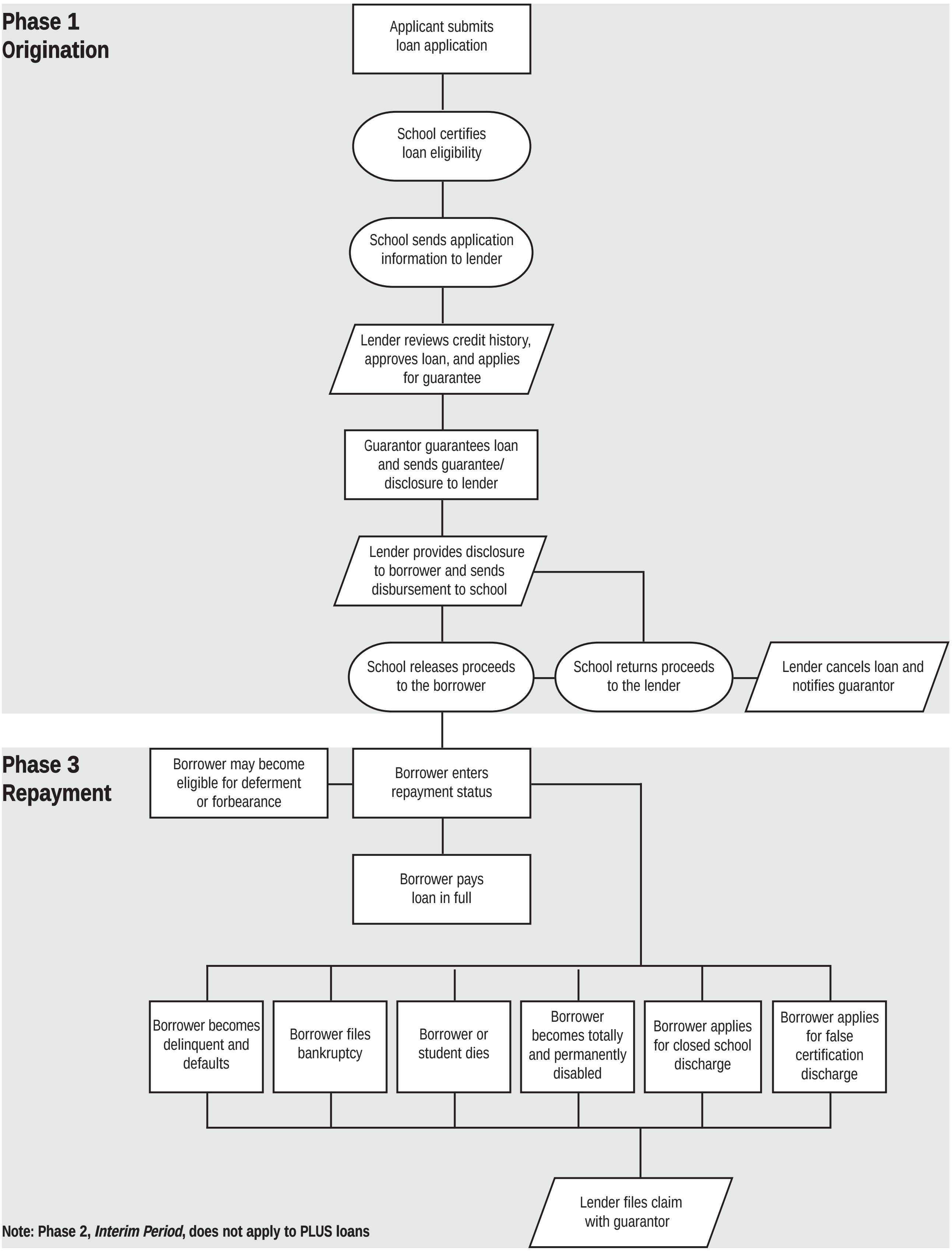
In the case of a Stafford loan, the origination process and flow of documents vary depending on the application and promissory note process used by the school.

For a PLUS loan, the loan origination process begins when a parent borrower, in conjunction with a dependent student, completes the PLUS application and promissory note. The parent submits the application to the school, lender, or guarantor, depending on the processing options established by the school.

THE LIFE OF A STAFFORD LOAN



THE LIFE OF A PLUS LOAN



Note: Phase 2, *Interim Period*, does not apply to PLUS loans

Origination of Stafford Loans Using the Common Application

Schools may use the common Stafford application and promissory note for any loan application certified prior to July 1, 2000, for any period of enrollment beginning prior to July 1, 2000.

The common Stafford application and promissory note is used for a single loan for a specific loan period. The student must complete a new Stafford application and promissory note for each new loan requested. The student applies for a Stafford loan by completing the borrower section of the form and signing the promissory note (see subsection 6.1.H. for information regarding a student's request to increase his or her loan amount).

The student submits the application and promissory note to the financial aid office at the school he or she is attending or planning to attend, the lender, or the guarantor, depending on the processing options established at the school. The school's financial aid administrator determines the student's eligibility according to federal regulations, guarantor policies, and the school's published standards. The school certifies the student's eligibility to either the lender or guarantor via the certification section of the common Stafford application and promissory note or an electronic process.

Origination of Stafford Loans Using the MPN

The Master Promissory Note (MPN) may be used for any Stafford loan certified by a school for a loan period that begins on or after July 1, 1999, and will be the only approved Stafford loan promissory note for any period of enrollment beginning on or after July 1, 2000, or for any loan certified on or after July 1, 2000, regardless of the loan period beginning date.

Initially, only four-year, graduate, and professional schools are authorized to offer students the multi-year feature of the MPN. However, the Department may exclude certain four-year, graduate, and professional schools from participation in the multi-year feature of the MPN. Other schools must use a separate MPN for each new loan (as with the common Stafford application and promissory note), unless specifically authorized by the Department to offer the multi-year feature. The Department will provide program participants with information regarding schools approved to participate in the multi-year feature of the MPN. Lenders may rely upon information provided by the Department to determine schools authorized to use the multi-year feature.

The MPN includes the student borrower's promise to repay his or her Stafford loan and provides important language about the student borrower's rights and responsibilities with respect to obtaining and repaying the loan. Because the MPN is only a promissory note, the borrower application and school certification processes are separate. Using an MPN, the student applies for a Stafford loan either by using the FAFSA or an alternative school financial aid application process. The school certifies the student's eligibility to either the lender or the guarantor via a paper certification form or an electronic format.

Students attending schools not using or not authorized to use the multi-year feature must complete a new MPN for each new loan, as with loans made under the common Stafford application and promissory note. Students attending schools authorized by the Department to participate in the multi-year feature of the MPN must complete an MPN only for the first loan using the MPN, unless the lender's ability to make additional loans under the student's MPN has expired, or the student, school, lender, or guarantor requires the completion of a new MPN. A guarantor may require a new MPN in the event of an invalid lender code or if the prior MPN has expired or been revoked for purposes of making additional loans.

Using the multi-year feature, a student borrowing at one school may transfer to another school and continue to borrow using the same MPN provided the new school is authorized to participate in the multi-year process, the MPN remains valid, and the new school does not require a new MPN.

The lender must verify that the loan is supported by a signed MPN and that the lender's ability to make subsequent loans has not expired or been revoked (see subsection 6.1.A.).

School Certifies Loan Eligibility

For a Stafford loan, the school certifies:

- The student's eligibility.
- The maximum amount of loan for which the applicant is eligible.
- The maximum amount of loan on which the Department will pay interest benefits, if applicable.
- The loan period, enrollment status, grade level, and anticipated graduation date.
- A recommended disbursement schedule for the loan.
- Other information used by the lender to determine whether to make the loan.

For a PLUS loan, the school certifies the preceding information and the parent's eligibility for the loan.

The school sends the loan certification to the lender or to the guarantor on the lender's behalf. Usually, loan certification information is transmitted electronically.

For more information on eligibility requirements and the school's certification of loan applications, see chapter 5.

Lender Reviews and Approves the Loan

After the school certifies eligibility, the loan applicant submits—or directs the school to submit—the loan information to an eligible lender of the applicant's choice. The lender is responsible for reviewing the loan information to determine whether a loan should be made based on its lending practices.

In determining borrower eligibility, the lender generally relies in good faith on information provided by the school, the applicant, and, for PLUS loans, the student. For a PLUS loan, the lender must also determine whether the applicant is creditworthy by obtaining and reviewing a credit report. If the lender determines that the loan information is complete and that the applicant is eligible for a loan, the loan information is submitted to the guarantor for guarantee.

The guarantor often reviews and approves the loan on a lender's behalf, where such arrangements have been made between the guarantor and the lender.

For more information on how the lender reviews and approves the loan, see chapter 6.

Guarantor Reviews and Guarantees the Loan

Upon receiving the loan information, the guarantor:

- Reviews the applicant's eligibility based on the loan information provided to determine if the record is complete, legible, and consistent with other information in its records.
- Enters the loan information on its system to process the guarantee.

If the loan information indicates that the applicant is eligible, the guarantor notifies the lender that the loan has been guaranteed. When the loan is guaranteed, the guarantor produces a guarantee disclosure to provide the borrower and lender with important information about the loan. Information on the guarantee disclosure includes the loan amount, interest rate, scheduled disbursement dates, and loan fees. Many guarantors also notify the school when the loan is guaranteed.

For more information on how the guarantor reviews and processes a loan for guarantee, see chapter 6.

Lender Disburses the Loan

The lender compares the guarantee disclosure to the borrower's loan information. If the data is consistent, the lender keeps a record of the guarantee and provides an accurate disclosure to the borrower on or before the date of the first disbursement.

The lender disburses the loan proceeds to the borrower according to the dates reflected on the guarantee disclosure and sends the loan proceeds to the school (unless the borrower is attending a foreign school or studying abroad). The lender may disburse the loan by issuing an individual check, by sending a master check that combines the loan proceeds of several borrowers into a single check, or by transmitting the loan funds via electronic funds transfer.

The lender may make arrangements with a disbursing agent to disburse the loan on the lender's behalf.

For more information on disbursement, see chapter 6.

School Delivers the Loan Proceeds to the Borrower

The school delivers the loan proceeds to the borrower promptly after verifying that the borrower remains eligible for the loan. The school credits the funds to the student's account or delivers the funds to the borrower, as appropriate. At the borrower's written request, a school may also retain and deliver funds periodically to help the student manage his or her loan funds and attendance costs.

Sometimes, a borrower receives additional financial aid after his or her eligibility for a Stafford or PLUS loan has been certified by the school. When this happens, an overaward may occur. Under certain circumstances, the school must return all or a portion of the undelivered Stafford or PLUS disbursements to the lender to reduce or eliminate the overaward.

If the borrower has lost eligibility for the Stafford or PLUS loan, the school must promptly return any undelivered proceeds to the lender. Typically, the loan disbursement is then canceled by the lender. Under certain circumstances, a borrower may still be able to obtain the loan proceeds as a late disbursement.

For more information on school delivery of loan proceeds, see chapter 6.

2.2.B.
The Interim Period

In-School and Grace Periods

Each Stafford loan borrower is entitled to an " interim period." This period includes the time when the student is in school and the grace period before the borrower is required to begin making payments. During the in-school and grace periods on a subsidized Stafford loan, the federal government pays the interest due the lender on behalf of the student. During the in-school and grace periods on an unsubsidized Stafford loan, the lender is responsible for collecting or capitalizing interest due from the borrower.

The in-school period is the period during which the borrower is enrolled at least half time in school. During this period, the school—in addition to providing the education or training that the borrower paid for—keeps track of and reports on the student's enrollment status, anticipated graduation date, and changes in address.

After the student leaves school or drops to less than half-time enrollment, the grace period on a Stafford loan begins. During the grace period, the lender begins preparing for the borrower to enter repayment.

The lender may arrange with other program participants to service the loan on the lender's behalf or may choose to sell the loan to another lender or secondary market.

The interim period is not applicable on PLUS loans. A PLUS loan borrower enters repayment immediately upon full disbursement of the loan. The borrower may postpone payment of principal on a PLUS loan if he or she is eligible for a deferment. The lender is responsible for collecting or capitalizing interest due from the borrower during the deferment period.

For more information on school and lender responsibilities during the interim period, see chapter 7.

Student Leaves School

If the student leaves school before the end of the loan period, the school may need to refund tuition and fees. The school must determine whether any portion of the refund is due the Stafford or PLUS loan borrower, then promptly send the refund to the lender.

When the student leaves school or drops to less than half-time enrollment, the school must provide exit counseling information to the borrower. The school also must report the student's last date of at least half-time enrollment to the guarantor and/or lender. The lender credits any refund from the school and records the student's last date of attendance.

For more information on the school's responsibilities when the student leaves school, see chapters 4 and 6.

Occasionally, a borrower may repay some or all of his or her student loan early. Any funds received by the lender before repayment is scheduled to begin are treated as a prepayment and are generally applied to the principal balance of the borrower's loan.

For more information on prepayments, see chapter 7.

School’s Responsibilities during the Interim Period

The school’s responsibilities during the interim period include:

- Monitoring and reporting the student’s enrollment status to the guarantor or lender.
- Reporting demographic data to the guarantor or lender.
- Providing exit counseling information to the student.
- Reporting required information to the guarantor.
- Calculating any refunds due the student and providing them to the lender.

For more information on the school’s responsibilities, see chapter 4.

Lender’s Responsibilities during the Interim Period

The lender’s responsibilities during the interim period include:

- Reporting disbursements made.
- Remitting guarantee fees to the guarantor.
- Accruing, collecting, or capitalizing interest due on the loan.
- Monitoring student enrollment status or confirmation reports for changes in borrower or student status or demographic data.
- Reporting loan status information to the guarantor.
- Reporting loan information to a credit bureau.
- Reporting disbursement and loan information to the Department.
- Collecting, reporting, and paying origination fees to the Department.
- Requesting interest and special allowance benefits from the Department.

The lender may arrange to have other program participants service loans on the lender’s behalf.

For more information on the lender’s responsibilities, see chapters 3, 6, and 7, and appendix A.

2.2.C.
Repayment

Borrower Enters Repayment

A Stafford loan borrower enters repayment when the grace period ends. A PLUS loan borrower enters repayment at the time the loan is fully disbursed.

The lender must notify the borrower of the terms and conditions for repayment of the loan before payments are scheduled to begin. These terms and conditions include the total amount to be repaid, the number of payments, the payment amount, the interest rate, the payment due date, and any interest amounts that are being capitalized. Borrowers are responsible for paying the interest that accrues on their loans during repayment. A Stafford, PLUS, or SLS loan borrower may consolidate two or more education loans into one debt. Consolidation can help the borrower more easily manage his or her debts, and may lower the total monthly payment on those debts.

During the repayment period, the lender is responsible for:

- Notifying the borrower of his or her repayment terms.
- Converting the loan to repayment.
- Collecting and applying loan payments.
- Processing deferments and forbearances.
- Reporting loan status changes to the guarantor.
- Reporting loan information to the Department.
- Reporting loan information to a national credit bureau.
- Requesting interest and special allowance payments from the Department.

The lender may arrange to have other program participants service loans on the lender's behalf.

For more information on how the lender converts loans to repayment and services loans during the repayment period, see chapter 7.

Deferment and Forbearance

A borrower in repayment is entitled to defer payments of principal if the borrower meets certain criteria. There are many different types of deferments available to borrowers, including deferments for periods of unemployment, economic hardship, or further study.

A borrower in repayment may experience a period of temporary economic hardship but may not be eligible for a deferment. If this occurs, the borrower may request forbearance from the lender. With a forbearance, the lender and borrower can reduce or postpone payments on the loan.

Subsidized Stafford loan borrowers, and certain other borrowers, are eligible to have the federal government pay the interest during a deferment period or post-deferment grace period. An unsubsidized Stafford, PLUS, or SLS loan borrower must make arrangements with the lender to pay or capitalize the interest due during a deferment or forbearance period.

For more information on deferment and forbearance, see chapter 7.

Borrower Pays the Loan in Full

Ideally, the borrower makes all loan payments as scheduled and repays the loan in full. To confirm a borrower's paid-in-full status when repayment is completed, the lender must provide certain documents and notices to the borrower, the guarantor, and other parties.

For more information on how to handle loans that have been paid in full, see chapter 7.

Borrower Does Not Pay the Loan in Full

If a loan is not paid in full by the borrower, or if the borrower is eligible to have his or her loan discharged, the guarantor will reimburse the lender for its loss—provided the lender has complied with the requirements for making, servicing, and collecting the loan. The lender requests a claim payment on the loan from the guarantor. Following a default claim payment to the lender, the guarantor will continue attempting to collect the loan from the borrower.

A lender may be eligible for reimbursement of a loan under any of the following circumstances:

- The borrower fails to repay the loan when it is due.
- The borrower or student dies before the loan is paid in full.
- The borrower becomes totally and permanently disabled.
- The borrower files for debt collection protection under bankruptcy laws.
- The school closes while the student is attending.
- The school falsely certifies the borrower's eligibility for the loan.

In each of the preceding cases, the lender must submit a claim reimbursement request to the guarantor within specified time frames. The lender must provide all required documentation with the guarantor's claim form to demonstrate the lender's or borrower's eligibility for reimbursement on, or discharge of, the loan obligation.

For more information on the lender's responsibilities when the borrower is unwilling or unable to make payments, see chapter 8.

2.3
Other FFELP Resources

FFELP participants may consult several resources for more information on the program:

- The U.S. Department of Education provides several publications on various aspects of the FFELP. Many of these publications are described in the following two subsections. A guarantor can provide many of the resources listed or can assist a school or lender in locating them. See chapter 1 for information on contacting guarantors.

  Schools and lenders also may consult the Department for guidance or additional reference materials. Contact information for the Department's regional offices is included in appendix D.

- Several student loan organizations make FFELP information available. Schools and lenders may contact guarantors for more information about these organizations and the publications they offer.

2.3.A.
Federal Statute, Regulations, and Dear Colleague Letters

FFELP guidance for schools, lenders, servicers, and guarantors is included in amendments to the Higher Education Act, the federal student aid regulations, and the Department's Dear Colleague Letters. These are essential references for schools and lenders that participate in the FFELP.

The Higher Education Act of 1965, as Amended

This statute governs student financial aid programs. Like any other law, the Act is amended by Congressional action and the amendments are signed into law by the President. This document is updated periodically by the Superintendent of Documents. A program participant may obtain a copy of the Act as follows:

Contact:
Congressional Desk
U.S. Superintendent of Documents
Washington, D.C. 20202
Phone (202) 512-1808

Request:
Volume III Higher Education
Compilation of Federal Education Laws

Student Financial Aid Regulations

Volume 34 of the *Code of Federal Regulations* (34 CFR) contains many of the regulations that govern the student financial assistance programs authorized by the Higher Education Act. The Department publishes regulations that govern how schools, lenders, servicers, and guarantors administer the student financial assistance programs. Regulations are updated annually on July 1. Federal regulations may be ordered as follows:

Contact:
U.S. Superintendent of Documents
Washington, D.C. 20202
Phone: (202) 512-1800

Request:
34 CFR Part 400 to End

Another publication—entitled *Compilation of Student Aid Regulations 34 CFR*—and copies of individual chapters of the federal regulations are available from the Department. Copies may be requested by calling (800) 4-FED-AID.

Dear Colleague Letters (DCLs)

These letters are sent by the Department to schools, lenders, servicers, and guarantors to provide interpretive guidance about student financial assistance programs. Typically, the letters are issued by the Department to provide interim guidance after Congress amends the Higher Education Act until the Department publishes regulations. To obtain a DCL, a program participant may call the Department at (800) 4-FED-AID or may contact a guarantor.

Regulatory Waivers

Occasionally, the Secretary uses his authority under §432(a)(6) of the Higher Education Act of 1965, as amended, and 34 CFR 682.406(b) and 682.413(f) of the regulations, to provide relief to FFELP borrowers, schools, lenders, or guarantors from certain regulatory provisions. For example, if an area has been designated a disaster area by the President of the United States or Mexico, the Prime Minister of Canada, or a governor of a state, certain regulations may be waived. The Department will issue guidance to notify program participants of the regulations being waived. This guidance will specify time frames and other conditions applicable to these waivers, such as military mobilizations.

2.3.B.
U.S. Department of Education Publications

The following Department publications are available upon request, by calling (800) 4-FED-AID.

The Federal Student Financial Aid Handbook (SFA)

This publication provides guidance to schools and lenders that offer student financial assistance to students and borrowers. It is updated annually by the Department.

Trainee Guide: Delivery System Training Workshop

This annual publication includes guidance to schools on delivering student financial aid. The Department typically hosts regional workshops to provide this information to schools. Workshop materials and videotapes are available from the Department.

Official Cohort Default Rate Guide for FFEL Program and/or Direct Loan Program Loans

About a month before the official cohort default rates are published, the Department releases the *Official Cohort Default Rate Guide for FFEL Program and/or Direct Loan Program Loans (Official Cohort Default Rate Guide)*. This replaced the old *Enclosure B* publication.

Draft Cohort Default Rate Review Guide for FFEL Program and/or Direct Loan Program Loans

This publication is provided to assist schools with calculating and analyzing the data on which the draft cohort default rate is based. It also includes information about deadlines and the process for challenging cohort default rate data. The Department plans to publish this booklet annually before cohort default rates are released.

The Verification Guide

This publication is provided to assist schools in verifying information supplied by students and families when they apply for student financial aid. It is generally published annually.

The Expected Family Contribution Formula Book

This publication is provided to inform schools of how the expected family contribution (EFC) is calculated for students and families when they apply for student financial aid. It is generally published annually.

Counselor's Handbook - Postsecondary Edition

This publication is intended to assist student financial aid counselors at postsecondary schools in providing information to applicants about the student financial aid process. It is generally published annually.

Counselor's Handbook - High School Edition

This publication is intended to assist high school counselors in providing information to students and families about the student financial aid process. It is generally published annually.

Audit Guide (School)

This publication is provided to assist schools with required audits of their student loan programs.

Audit Guide (Lender)

This publication is updated periodically by the Department to assist lenders in preparing required audits of their student loan programs.

Self-Instructional Workbook for the ED Form 799

This publication is provided to assist lenders in reporting loan information and collecting interest benefits and special allowance payments on FFELP loans. This document also is available from the Department's regional offices. Contact information for these offices is included in appendix D.

3 Lender Participation

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Chapter 3 explains the eligibility requirements, restrictions, and responsibilities of lenders participating in the Federal Family Education Loan Program (FFELP). Additional information on lender participation in the Federal Consolidation Loan Program is contained in chapter 9.

3.1 Eligible Lenders

Eligible lenders participate in the FFELP on a voluntary basis. An eligible lender can be any of the following:

- A national or state chartered bank, mutual savings bank, savings and loan association, stock savings bank, or credit union. To be considered eligible to participate in the FFELP, the lender must meet both of the following criteria:
  - The lender is subject to examination and supervision in its capacity as a lender by an agency of the United States or the state in which its principal place of operation is established.
  - The lender does not have as its primary consumer credit function the making or holding of FFELP loans to students and parents. FFELP loans may not represent more than 50% of the lender's consumer credit loan portfolio (including home mortgages). A lender is exempt from this requirement in either of the two following scenarios: (1) the lender is a bank wholly owned by a state, or a bank that is subject to examination and supervision by an agency of the United States; makes student loans as a trustee pursuant to an express trust; and has operated as a lender under the loan programs before January 1, 1975, and has met these requirements before the enactment of the Higher Education Amendments of 1992; or (2) the lender is a single, wholly owned subsidiary of a bank holding company that does not have as its primary consumer credit function the making or holding of student loans.
- A pension fund, as defined in the Employee Retirement and Income Security Act.
- An insurance company that is subject to examination and supervision by an agency of the United States or a state.
- A single state agency or a single nonprofit private agency designated by the state.
- The Student Loan Marketing Association (Sallie Mae), for purposes of making refinanced PLUS and SLS loans, Federal Consolidation loans, and loans made under Lender of Last Resort provisions—and for the purpose of purchasing and holding loans made by other eligible lenders.
- A Rural Rehabilitation Corporation that has received federal funds under P.L. 499-81.
- A state agency functioning as a secondary market, for purposes of purchasing and holding loans made by other eligible lenders.
- A nonprofit private agency functioning in any state as a secondary market, for purposes of making Federal Consolidation loans.
- A bank [as defined in section 3(a)(1) of the Federal Deposit Insurance Act] that is a wholly-owned subsidiary of a tax-exempt, nonprofit foundation [as described in section 501(c)(3) of IRS Code of 1986, and exempt from taxation under section 501(1) of the Code], for purposes of making FFELP loans only to undergraduate students aged 22 or younger, provided the bank's FFELP portfolio does not exceed $5 million.
- A consumer finance company subsidiary of a national bank that, on October 7, 1998, acted as a small business lending company (as defined in regulations prescribed by the Small Business Administration) through one or more subsidiaries. The bank's direct and indirect subsidiaries together must not have as their primary consumer function the making or holding of education loans.
- A guarantor, for purposes of making loans permitted by the Higher Education Act, Sections 428(h) and 428(j).
- An eligible school (see section 3.2). [§682.200(b); HEA 435(d)(1)]

Any of the preceding entities may be further regulated or defined by state law, as applicable. For example, Texas state law and practice impose certain additional eligibility requirements on some lenders.

3.2
Schools Acting as Lenders

An eligible school may act as a lender under the Federal Stafford Loan Program and Federal PLUS Loan Program if it meets all of the following criteria:

- The school does not make loans that would be outstanding to more than 50% of the undergraduate students attending the school on at least a half-time basis—unless the school has received a waiver on this limit from the Department.

- The school does not make a loan to, or on behalf of, an undergraduate student unless the student has previously received a loan from the school or provides evidence that a loan has been denied by a commercial lender.

- The school separates the lending function from other school functions. The school must employ at least one person whose full-time responsibilities are limited to the administration of the school's Student Financial Assistance (SFA) programs. The school also must employ at least one person whose responsibilities are limited to the lending function.

- The school uses the proceeds from its interest benefits and special allowance payments for need-based grant programs, except for reimbursement of reasonable direct administrative expenses.

- The school is not a correspondence school.

- The school has not had cohort default rates that exceed 15% for each of the two most recent fiscal years—unless it has received a waiver on this restriction from the Department.
  [§682.200(b); §682.601; HEA 435(d)(2)]

3.3
Participation and Guarantees

Before making FFELP loans to borrowers, lenders must enter into agreements with guarantors and receive Department of Education approval to participate (see subsections 3.3.A. and 3.3.B.).

During the course of program participation, loans made by a lender may undergo changes in ownership, servicing, or even guarantee. Such changes are subject to the restrictions outlined in subsections 3.3.C. and 3.3.D.

3.3.A.
Approval for Participation

A lender must meet the following requirements to participate in the FFELP under a guarantor's loan programs:

- The lender must meet the federal and state definitions of an eligible lender.

- The lender must execute an agreement to guarantee loans with the guarantor and meet any other guarantor requirements (see subsection 3.3.B.).

- The lender must obtain a lender identification number (LID) from the Department.

A lender that is obtaining an LID for the first time requests its number through the guarantor. The lender must provide the guarantor with its name, address, and employer identification number (the 9-digit identification number assigned to the lender by the Internal Revenue Service for reporting federal income taxes withheld). The Department will issue an LID after receiving this information from the guarantor. The lender must use its LID on all forms and reports submitted to the Department or the guarantor.

Upon receiving a confirmation letter of the assigned LID, the Department will forward a Lender Participation Questionnaire (LPQ) to the lender. The lender must complete and return the LPQ to the Department. Once the lender receives confirmation from the Department that its LPQ has been approved, the lender is eligible to begin making Stafford and PLUS loans.

An insurance company that participates as a lender in a guarantor's program must agree not to require a borrower to purchase an insurance policy as a prerequisite for receiving a FFELP loan.

A school that participates as a lender must agree to comply with all requirements associated with participation in the FFELP as a lender.
[§682.601(a)(1)]

3.3.B.
Agreement to Guarantee Loans

A lender must meet the guarantor's eligibility requirements and execute an agreement to guarantee loans with that guarantor. The agreement defines the terms and conditions of the lender's participation in the FFELP under the guarantor's loan programs. A separate agreement may be required for each program in which a lender participates.

A lender also may execute other agreements or addenda to take advantage of various products and services offered by the guarantor to simplify loan origination.

Some guarantors have requirements known as One-Lender and One-Holder Rules. These requirements are noted in appendix C.

3.3.C.
Assignment of Loans

The assignment of a loan may occur only between lenders and holders that are eligible to participate in the loan program and guarantor program applicable to the type of loan being assigned. For example, a PLUS loan may be assigned only if the assigning lender and the new holder are both eligible to participate in the Federal PLUS Loan Program under the guarantor of the loan to be assigned.

Additional requirements on the assignment of loans are described in subsections 3.4.B. and 3.5.E.

3.3.D.
Transfer of Loan Guarantee

There are generally two types of guarantee transfers. In some cases, a borrower requests that a loan's guarantee be transferred from one guarantor to another in order to have all of his or her loans administered under a single guarantor. In other cases, lenders may request the change of guarantee based on changes in servicer or guarantor relationships.

In the case of a borrower-requested guarantee transfer, such transfer may occur only if the borrower's request is obtained in writing, and the holder and both guarantors agree to the transfer. In the case of a loan made to two borrowers as comakers, both borrowers must request the transfer in writing.

A guarantor will not accept a borrower-requested transfer of guarantee on any loan for which any of the following conditions exist:

- The loan reflects or should reflect a stay of collection activities based on the borrower's filing of a bankruptcy action.
- The loan is 30 or more days delinquent.
- The loan is currently filed as a claim with the transferring guarantor.
- The lender does not know the current address of the borrower.

The lender must certify in writing to the guarantor accepting the transfer that, according to its records at the time of transfer, none of these conditions exist for the loan being transferred.

A guarantee may be transferred without the borrower's request only with the prior approval of the Department, the loan's holder, and both guarantors.

Prior to any guarantee transfer, the lender of the loan must have an active agreement with the guarantor accepting the transfer. The lender also must obtain in writing the borrower's request or the Department's approval, as applicable, and supply the guarantor accepting the transfer with copies of those documents, if required by that guarantor. Guarantee fees paid on the loan will not be transferred.

3.4 Lender Responsibilities

To maintain its eligibility to participate in the FFELP under a guarantor's programs, a lender must administer its loan portfolio in compliance with the following:

- The Higher Education Act of 1965, as amended.
- Federal regulations promulgated by the Department.
- Federal directives, including Department guidance such as Dear Colleague Letters.
- Guarantor policies, as outlined in this manual.
- Other requirements and procedures provided by the guarantors with which the lender participates.

If a lender fails to comply with any of the preceding requirements, a guarantor may limit, suspend, or terminate the lender's eligibility to participate in the guarantor's programs (see chapter 12).

General Responsibilities

A lender is required to respond to any inquiry from a borrower or endorser on a loan within 30 days of the date on which the lender receives the inquiry.
[§682.208(c)(1)]

If a lender delegates the making, servicing, collection, or assignment of its loans to any servicer or other party, the lender must ensure that the other entity meets all requirements described in this section.

A lender that holds loans as a trustee assumes responsibility for complying with all statutory, regulatory, and guarantor requirements imposed on any other holders of a loan.
[§682.203(b)]

3.4.A. Recordkeeping Requirements

A lender is required to keep current, complete, and accurate records for each FFELP loan it holds. Special recordkeeping requirements for the application and promissory note are explained in **Required Records**. All other records may be stored in hard copy or on microform (e.g., microfilm or microfiche), computer file, optical disk (e.g., electronic optical image), CD-ROM, or other media formats.

All records must be retrievable in a coherent hard copy format or in other media formats such as microform, computer file, optical disk, or CD-ROM. Any imaged media format used must be capable of reproducing an accurate, legible, and complete copy in approximately the same size as the original document, and must not permit additions, deletions, or changes without leaving a record of such additions, deletions, or changes. The media format must record and maintain the original document so that it can be certified as a true copy of the original in order to be admissible in a court of law, if such becomes necessary. If a document contains a signature, seal, certification, or any other validating mark, it must be maintained in original hard copy or in another media format that can produce a copy of the document (e.g., microform, optical disk, CD-ROM).

Required Records

Federal regulations require that the lender maintain the following documentation for each loan:

- Copies of the loan application and the signed promissory note (whether combined or separate documents). The original promissory note (until fully repaid or assigned to the Department) and the original application must be retained by either the current holder of the loan or the guarantor on the holder's behalf.
- The guarantee disclosure for each loan, with a record of any changes to the disclosure.
- Evidence of disbursement.
- Documentation of the lender's handling of any refunds issued by the student's school.

- Documentation supporting any social security number change.
- Documentation of the date on which the student was no longer enrolled at least half time and the schools the student attended.
- Notice of address changes for the borrower or references.
- Documentation of all repayment terms established with the borrower, including the repayment start date of the loan and the amount and number of installments.
- A record of all payments received, including the dates, amounts, and way in which each payment was applied to the principal, interest, and other outstanding balances on the loan.
- Evidence of any deferment eligibility, including the beginning and ending dates for each deferment.
- Documentation of any forbearance granted, including the beginning and ending dates for each forbearance.
- Documentation of all due diligence efforts.
- A record of each communication on the loan—other than regular reports by the lender showing that an account is current—between the lender and a credit bureau.
- Documentation of any assignments, sales, or purchases on the loan—including evidence that a notice of loan assignment was sent to the borrower, if applicable.
- Audit trails sufficient to support the lender's payment of origination fees and billings of interest benefits and special allowance to the Department.
- Any additional records necessary to document the validity of a claim against the guarantee (see subsection 8.3.B.).
[§668.24(d)(3)(i) through (iv); §682.414(a)(4) through (5)]

Record Retention Time Frames

The preceding records for each loan must be retained for at least 5 years after the date the loan is paid in full or purchased as a claim. A lender that sells a loan to another lender remains subject to this 5-year retention requirement for all documentation generated through the date it sells the loan. A lender that purchases a loan from another lender is subject to the 5-year retention requirement for all documentation generated from the time of the loan's origination through the date the purchasing lender no longer holds the loan.
[§682.414(a)(4)(iii)]

When a loan is paid in full by the borrower, the holder or guarantor shall either return the original promissory note to the borrower or notify the borrower by an alternate procedure acceptable under state law that the loan is paid in full. The holder or guarantor must retain a copy of the promissory note for a period of not less than 5 years following the date the loan is paid in full by the borrower or the lender is reimbursed on a claim.
[§682.414(a)(5)(ii)]

3.4.B.
Notice to Borrower of Loan Sale or Transfer

A borrower must be notified if his or her loan is sold or transferred from one lender to another—if the loan is in grace or in repayment—and the transaction causes a change in the party to which the borrower must send future payments and communications.

Loan Sales

Both the buying and selling lenders must notify the borrower—either jointly or separately—of a loan's sale. This notification must include the following information:

- The identity of the buying lender and/or the new servicer.
- The address to which the borrower's subsequent payments and communications should be sent.
- The telephone numbers of both the buying and selling lenders—or, if either lender utilizes a loan servicer, the telephone number of each servicer.

Both lenders must send the preceding information to the borrower within 45 days after the sale is legally completed. If each lender provides separate notification to a borrower, each must include in its notice a statement that the other lender will be sending a similar notice under separate cover.

Loan Transfers

In some cases—such as a servicer transfer or branch transfer—a FFELP loan that is in grace or in repayment is not sold, but there is a change in the identity of the party to whom the borrower must send subsequent payments or communications. If this occurs, the loan holder must notify the borrower that the loan has been transferred and must provide the following information:

- The name of the new servicer, if applicable.
- The telephone number and address of the servicer or branch to which the borrower's subsequent payments or communications should be sent.

The lender must send the preceding information to the borrower within 45 days after the transfer is completed. [§682.208(h)]

Documentation Requirements

Although guarantors do not require that a copy of the notice of loan sale or transfer be included in a claim file, the lender must be able to provide evidence that the notice was provided to the borrower. For this reason, the lender must ensure that it retains a record of the notice for at least 5 years from the date the loan is paid in full or purchased as a claim. This documentation may be stored on microfilm, optical disk, or other machine-readable format, and must be available for program compliance reviews. [§682.414(a)(3)(ii) and (iii)]

3.4.C. Prohibited Activities

The following activities are prohibited by federal regulations and may result in a loss of FFELP eligibility:

- Receiving points, premiums, payments, additional interest, or any other form of compensation from another entity to obtain funds with which to make loans or to induce the lender to make loans either to a student or a parent borrower from a particular school or to any particular category of student or parent. Examples of such prohibited incentive payments include:
    - Cash payments made to a lender by or on behalf of a school.
    - The maintenance of a compensating balance with a lender by or on behalf of a school.
    - Payments to a lender by or on behalf of a school for servicing costs on loans that the school does not own.
    - Payments to a lender by or on behalf of a school for unreasonably high servicing costs on loans owned by the school.
    - Purchase of a lender's stock by or on behalf of a school.
    - Payments ostensibly made for other purposes.
- Refusing to make, purchase, consolidate, or refinance a loan because of the borrower's race, national origin, religion, sex, marital status, age, or disability.
- Offering—directly or indirectly—points, premiums, payments, or other inducements to any school or individual to secure applicants for loans.
- Conducting unsolicited mailings of student loan application forms to potential borrowers who had not previously borrowed student loans from that lender.
- Offering loans—directly or indirectly—as an inducement to a prospective borrower to purchase an insurance policy or other product.
- Engaging in fraudulent or misleading advertising with respect to its FFELP activities.

- Discounting the sale or transfer of notes, or any interest in notes, if the underlying FFELP loans were made by a school or lender having common ownership with a school—except when purchased by the Student Loan Marketing Association, a state agency functioning as a secondary market, or in other circumstances approved by the Department.

- Using a FFELP loan as collateral for any loan bearing aggregate interest and other charges in excess of the sum of the applicable interest rate and the current special allowance rate—except to secure a loan from the Student Loan Marketing Association, a state agency functioning as a secondary market, or in other circumstances approved by the Department.

These prohibitions do not preclude a lender—when buying loans that were originally made by a school—from obtaining a warranty from the seller to cover future reductions by the Department or a guarantor in computing the amount of loss payable on default claims caused by a seller's or previous holder's act or failure to act.

If warranted, the Department or a guarantor will notify a lender that an action is pending to terminate its eligibility to participate in the FFELP. The lender will be given an opportunity to appeal such an action. For more information on termination actions, see chapter 12.

A lender is considered ineligible to participate in the FFELP if any principal employee or affiliate of the lender is debarred or suspended under Executive Order 12549 or the Federal Acquisitions Regulations.
[HEA 435(d)(5); §682.200; §682.212(a)]

3.4.D.
Borrower Defenses

In some cases, a loan may be subject to borrower claims and defenses (such as poor quality of education). This may result in the borrower being released from his or her obligation to repay the loan, if the loan meets either of the following criteria:

- The loan was made by a for-profit postsecondary school.

- The proceeds of the loan were used to pay tuition and other charges at a for-profit postsecondary school that refers loan applicants to the lender—or that is affiliated with the lender by common control, contract, or business arrangement.

3.4.E.
Charges to Borrowers

A lender may impose the following charges on borrowers, as provided by the terms of the borrower's promissory note and as permitted by federal and state law:

- Guarantee and origination fees.

- Interest (not to exceed the applicable statutory rate).

- Capitalized interest.

- Late charges.

- Reasonable collection costs, such as court costs and attorney fees incurred by the lender or its servicer in collecting a delinquent loan.

If an ineligible borrower receives a loan solely as a result of his or her error or false statements, the lender also may charge the borrower the amount of special allowance that was paid by the Department through the most recently ended fiscal quarter.

If a borrower refinances a fixed interest rate PLUS or SLS loan to obtain a variable interest rate, the lender may charge the borrower a fee of up to $100 to cover the costs of conversion. For more information on refinancing PLUS and SLS loans, see appendix B.

Nonpermissible Charges

A lender may not charge the borrower either of the following:

- Additional fees for making a loan, such as lender application fees or the cost of credit checks performed on a borrower (federally authorized guarantee and origination fees are permissible).

- Normal collection costs, such as costs associated with the preparation and mailing of notices or letters or the making of telephone calls.
  [§682.202]

3.5
Lender Reporting

A lender must comply with all the reporting requirements outlined in this section. A lender also must comply with any applicable consumer loan reporting requirements, as outlined in various federal and state laws.

3.5.A.
Federal Origination Fee Payment and Reporting

A lender must pay an origination fee to the Department for each loan it makes. The lender reports the amount of origination fees due each quarter on a Lender's Interest and Special Allowance Request and Report (ED Form 799). For more information on ED Form 799, see section A.3.

Origination fee payment is the responsibility of the originating lender. Before purchasing a loan, a lender should obtain confirmation that origination fees have been paid.

Deactivation for Failure to Pay Origination Fees

A lender that fails to report and pay origination fees may be deactivated from participation in the FFELP. If the lender fails to submit an ED Form 799 for two consecutive quarters, the Department will notify the lender that it is a candidate for deactivation. The lender will be provided 60 days to respond to the pending action. A lender that does not successfully resolve reporting and payment issues with the Department within 60 days will have its six-digit lender identification number (LID) deactivated in the Department's Interest Payment Subsystem. The Department also will instruct guarantors to stop guaranteeing new FFELP loans for the deactivated LID.

Loans on which origination fees have not been paid are ineligible for claim payment. In addition, the Department will not pay interest benefits or special allowance on any part of a lender's portfolio from the date on which the lender is deactivated until the date on which the lender is reactivated.

To have its LID reactivated, a deactivated lender must submit payment for all outstanding federal origination fees to the Department, along with a letter certifying that all origination fees have been paid. After reactivation, the lender may not retroactively bill for interest benefits and special allowance payments for the period of deactivation. [DCL 94-L-170]

For more information on deactivation and additional requirements for reactivation, see subsection A.3.D.

3.5.B.
Interest Benefits and Special Allowance Reporting

A lender requests payments of interest benefits and special allowance from the Department by submitting an ED Form 799 each quarter. For more information on requirements related to interest benefits and special allowance and on the ED Form 799, see appendix A.

3.5.C.
Credit Bureau Reporting

A lender must report information on each FFELP loan it makes or holds to at least one national credit bureau. Federal regulations require that the following information be reported within the specified time frames, as applicable:

- The total amount of loans made to the borrower (to be reported within 90 days of each disbursement).
- The outstanding balance of the borrower's FFELP loans held by the lender.
- The repayment status of delinquent loans. The minimum frequency a lender must report status changes to at least one national credit bureau is quarterly. To avoid unnecessarily confusing the borrower and damaging the borrower's credit history, a lender is strongly encouraged to wait until a borrower is at least 60 days delinquent before reporting the delinquency to a credit bureau.
- The date the loan is paid in full by or on behalf of the borrower (to be reported within 90 days of the date the loan is paid in full).
- The date the loan is discharged due to the borrower's death, disability, or bankruptcy (to be reported within 90 days of the date the loan is discharged).

- The date the loan is discharged due to a closed school or false certification (to be reported within 30 days of the date the lender is notified that the loan is discharged). The lender also must request that the credit bureau remove any negative information regarding a loan discharged due to a closed school or false certification. For more information on closed school and false certification claims, see subsections 8.2.G. and 8.2.H.

- Other information required by federal or state law. [§682.208(b); DCL 96-L-186/96-G-287, Q&A #16]

A lender purchasing a FFELP loan must report the preceding information, as applicable, to a national credit bureau within 90 days of purchasing the loan. The lender must retain evidence of its credit bureau reporting. [§682.208(b)(2)]

If a borrower or endorser requests that the lender provide information on the repayment status of his or her loan to a credit bureau, the lender must do so within 30 days of the request. If a consumer dispute has been filed with a credit bureau, the lender must respond to a borrower's or endorser's request for information within 30 days.

A guarantor will report each loan it purchases as a default claim to all national credit bureaus.
[§682.410(b)(5)]

3.5.D.
Reporting Loan Status Changes

A lender must report student enrollment and loan status changes to the guarantor. A guarantor will accept a status change in any form or medium—as long as it includes the borrower's name and social security number, status change and effective date, loan account number or ID number, and any other pertinent information.

▲ Lenders may contact individual guarantors for more information on reporting loan status changes. See section 1.5 for contact information.

For information on reporting student enrollment changes, see subsection 7.3.B.

3.5.E.
Reporting Loan Sales and Transfers

If a lender sells a loan to another lender, the buying lender must notify the guarantor of the change within 45 days of the sale. The notification should provide the buying lender's name, lender identification number (LID), address, and telephone number.

If a lender transfers the servicing on a loan from one entity to another, the lender must report the change to the guarantor within 45 days of the transfer. A lender with more than one lender identification number (LID) must notify the guarantor if it transfers a loan from one of its LIDs to another of its LIDs.

The sale or transfer of a loan should be reported on the appropriate guarantor form or by an equivalent tape exchange. If the lender wants to report a sale or transfer using its own form or listing, the format must contain all data elements required by the guarantor. If a lender is acquiring the entire portfolio of another lender due to a merger, acquisition, bank closing, or similar situation, it may not need to complete a guarantor form nor list each of the loans being sold.
[§682.208(e)]

▲ Lenders may contact individual guarantors for more information on alternative reporting options. See section 1.5 for contact information.

Loans that are sold or transferred should not be reported to a guarantor as paid in full.

3.5.F. Social Security Number Change Reporting

If a lender becomes aware of a discrepancy in a borrower's social security number (SSN) at any time during the life of the loan, or it discovers that it had previously reported an incorrect SSN, the lender must report the correct SSN to the guarantor and appropriate credit reporting agencies.

A guarantor considers any of the following documents a valid source for initiating and reporting an SSN change:

- Social security card or other Social Security Administration document.
- Income tax return or W-2 form.
- Official military orders, documents, or papers.
- Loan application (if the discrepancy resulted from a data input error).
- State driver's license or a state-issued identification card for those states in which the social security number is listed on the license or identification card.

The lender must retain a copy of the document substantiating the SSN change. This documentation may be requested in a program review or may be required in a claim submission. The guarantor reserves the right to request this or other supporting documentation or information before changing a social security number on its system.

If a lender identifies an SSN discrepancy, exhausts its efforts to verify the correct SSN, and fails to obtain a copy of an acceptable source document, the lender should notify the guarantor of the discrepancy. The guarantor may be able to offer assistance.

3.5.G. NSLDS Reporting

The National Student Loan Data System (NSLDS) is a national data base of information on Title IV student aid, including FFELP loans. The NSLDS was developed to provide current loan-level information on Title IV aid, and to provide an integrated view of Title IV programs in terms of aid approval, disbursements, repayments, delinquencies, and school closings. The overall goals of the NSLDS are to improve the efficiency of the Title IV delivery system and to support research on improving program administration.

Each quarter, a lender must report NSLDS data on each FFELP loan it holds to the appropriate guarantor. A lender may arrange for a designated servicer to report on its behalf.

A lender reports NSLDS data to the guarantor using the NSLDS Lender Manifest, a common report format developed by the National Council of Higher Education Loan Programs (NCHELP). Although this record layout will be used throughout the program, specific data requirements may vary slightly among guarantors.

Instructions for the NSLDS Lender Manifest provide complete details on lender reporting requirements. A lender will receive reporting instructions from each guarantor represented in its portfolio of FFELP loans. It is critical that the lender review each guarantor's instructions carefully; the required frequency of reporting and requirements for reporting certain fields may vary among guarantors.
[DCL 95-L-177]

3.5.H. Reporting Loans Paid in Full

A lender must report to the guarantor each loan that is paid in full, including the date that the loan was paid in full. The transaction should be reported on the appropriate guarantor form or by an equivalent tape exchange. If the lender wants to report a loan that has been paid in full using its own form or listing, the format must contain all data elements required by the guarantor.

If a loan is paid in full as a result of the borrower obtaining a Consolidation loan, the lender must note this in its reporting and provide the date on which the loan was paid in full by consolidation. A guarantor must differentiate between loans paid in full by consolidation and those paid in full by other means (such as borrower payments) in its NSLDS reporting. When a loan is paid in full by the borrower, the lender must notify the borrower that the loan is paid in full in a format acceptable under applicable state law.

3.6
Third-Party Servicers

A third-party servicer is any organization or individual that enters into a contract with a lender to administer any aspect of the lender's FFELP activities as required under any of the following:

- A statutory provision of, or applicable to, Title IV of the Act.

- A regulatory provision prescribed under Title IV of the Act.

- An arrangement, agreement, or limitation with the Department or guarantor entered into under the authority of statutes applicable to Title IV of the Act.

Some examples of activities a third-party servicer may perform on a lender's behalf include originating, monitoring, processing, servicing, and collecting loans, and billing for interest benefits and special allowance.

Lender Requirements

A lender that contracts with a third-party servicer must meet the following requirements:

- The lender may not enter into a contract with a third-party servicer that the Department has determined does not meet the administrative capability and financial responsibility requirements for third-party servicers.

- The lender must provide the Department with the name and address of each third-party servicer with which the lender enters into a contract. The lender must provide a copy of its contract with the third-party servicer, if the Department requests it.

Servicer Requirements

If a third-party servicer performs, on behalf of a lender, any activity for which the records identified under the recordkeeping requirements section of this chapter (see subsection 3.4.A.) are relevant, the servicer must maintain complete and accurate records pertaining to the servicing of each loan in its portfolio. The records must be maintained in a system that allows ready identification of each loan's current status.
[§682.416(f)]

A third-party servicer may be subject to mandatory annual audits. For more information on audit requirements for servicers, see subsection 3.8.B.

In addition, the Department may review a third-party servicer to determine whether it meets the administrative capability and financial responsibility standards outlined in the following subsections 3.6.A. and 3.6.B.
[§682.416(c)]

3.6.A.
Administrative Capability

A third-party servicer is considered administratively capable if it meets the following criteria outlined by the Department:

- The servicer provides the services and administrative resources necessary to fulfill its contract with a lender and conducts all of its contractual obligations applicable to the FFELP in accordance with program regulations.

- The servicer has business systems (automated and/or manual) that are capable of meeting the requirements of the Act and federal regulations, with respect to the FFELP.

- The servicer has adequate personnel, who are knowledgeable about the FFELP.
  [§682.416(a)]

3.6.B.
Financial Responsibility

A third-party servicer is considered financially responsible if it meets the following criteria outlined by the Department:

- The servicer provides the services described in its official publications and statements.

- The servicer provides the administrative resources necessary to comply with the program requirements.

- The servicer meets all of its financial obligations, including refunds it is required to make (if applicable) and payments owed to the Department for program liabilities and debts.

- The servicer is current on its debt payments. A servicer is not considered current if it is in violation of any loan agreement at the end of its fiscal year, as disclosed in a note to its audited financial statements. A servicer is not current if it fails to make a payment in accordance with existing debt obligations for more than 120 days, and at least one creditor has filed suit to recover those funds. [§668.15(b)(1)–(4)]

For-Profit Servicers

A for-profit servicer must meet the following additional criteria—in addition to the general criteria noted at the beginning of this subsection—in order to be considered financially responsible:

- The servicer had an acid test ratio of at least 1:1 at the end of its latest fiscal year. This ratio is determined by dividing the servicer's cash, cash equivalents, and current accounts receivable—excluding any unsecured or uncollateralized related party receivables—by the sum of total current liabilities.

- The servicer has not had operating losses in either or both of its two most recent fiscal years that, in sum, result in a decrease in tangible net worth in excess of 10 percent of the servicer's net worth at the beginning of the first year of the two-year period.

- The servicer had a positive net worth for its latest fiscal year.

- The servicer can demonstrate to the Department's satisfaction that it has currently issued and outstanding debt obligations (without credit enhancements) at or above the second highest credit rating level. [§668.15(b)(7)]

Nonprofit Servicers

A nonprofit servicer must meet the following additional criteria—in addition to the general criteria noted at the beginning of this subsection—in order to be considered financially responsible:

- The servicer prepares a classified financial statement in accordance with generally accepted accounting principles or provides the required information in notes to financial statements.

- The servicer had an acid test ratio of at least 1:1 at the end of its latest fiscal year. This ratio is determined by dividing the servicer's cash, cash equivalents, and current accounts receivable—excluding any unsecured or uncollateralized related party receivables—by the sum of total current liabilities.

- The servicer had, at the end of its latest fiscal year, either a positive unrestricted fund balance or positive unrestricted net assets—or the servicer has not had an excess of current fund expenditures over current fund revenues over both of its two latest fiscal years that results in a decrease exceeding 10 percent of either the unrestricted current fund balance or the unrestricted net assets at the beginning of the first year of the two-year period.

- The servicer can demonstrate to the Department's satisfaction that it has currently issued and outstanding debt obligations (without credit enhancements) at or above the second highest credit rating level. [§668.15(b)(8)]

Public Servicers

A public servicer must meet the following additional criteria—in addition to the general criteria noted at the beginning of this subsection—in order to be considered financially responsible:

- The servicer has its obligations backed by the full faith and credit of a state or an equivalent governmental entity.
- The servicer has a positive unrestricted fund balance, if reporting under the Single Audit Act.
- The servicer has a positive unrestricted current balance in the state's higher education fund, as presented in the general purpose financial statements.
- The servicer submits to the Department a statement from the Auditor General indicating that the servicer has, in the past year, met all of its financial obligations and continues to have sufficient financial resources to meet its financial obligations.
- The servicer can demonstrate to the Department's satisfaction that it has currently issued and outstanding debt obligations (without credit enhancements) at or above the second highest credit rating level. [§668.15(b)(9)]

Criteria For Determining That A Servicer Is Not Financially Responsible

A third-party servicer is not considered financially responsible if any of the following criteria apply:

- Any individual affiliated with the servicer (as defined below) has been convicted of—or has pled *nolo contendere* or guilty to—a crime involving the acquisition, use, or expenditure of federal, state, or local government funds, or has been administratively or judicially determined to have committed fraud or any other material violation of law involving such funds. An affiliated individual can be:
  - The servicer's owner, majority shareholder, or chief executive officer.
  - Any person employed by the servicer in a capacity that involves the administration of a Title IV program or receipt of Title IV funds.
  - Any person or entity—or officer or employee of an entity—with which the servicer contracts to administer any portion of the Title IV program or receive Title IV program funds.

  The preceding requirement does not apply if any of the following has occurred:

  - The funds that were fraudulently obtained—or criminally acquired, used, or expended—have been repaid to the United States, and any related penalty has been paid.
  - The persons who were convicted of—or who pled *nolo contendere* or guilty to—a crime involving the acquisition, use, or expenditure of the funds are no longer incarcerated for that crime.
  - At least five years have elapsed from the date of the conviction, *nolo contendere* plea, guilty plea, or administrative or judicial determinations.
- The servicer, or any principal or affiliate of the servicer, is debarred or suspended under Executive Order 12549 or engaging in any activity that is cause for debarment or suspension.
- Upon learning of a conviction, plea, or administrative or judicial determination described previously in this subsection, the servicer does not promptly remove the person, agency, or organization from any involvement in the administration of the servicer's participation in Title IV programs, including, as applicable, the removal or elimination of any substantial control over the servicer.
  [§682.416(d)]

3.7
Lender of Last Resort

Lender of Last Resort (LLR) programs are authorized by the Act and federal regulations to facilitate full access to postsecondary education for all eligible students. The principal guarantor for each state is responsible for developing rules and procedures for its LLR Program.
[§682.401(c)]

3.7.A.
Eligible Lenders

The following entities may make LLR loans in any given state:

- The principal guarantor of FFELP loans in the state.
- An eligible FFELP lender that is an agency of the state, or a nonprofit private agency designated by the state.
- Any eligible FFELP lender, through arrangement with either of the eligible entities identified above.

If the Department determines that an eligible borrower is unable to obtain a subsidized Stafford loan through the LLR program for the state, the Student Loan Marketing Association (Sallie Mae) may be authorized to make an LLR loan for the borrower.
[HEA 439(q)]

3.7.B.
Benefits of Participation

A lender that makes LLR loans receives the following benefits:

- LLR loans are eligible for 100% insurance coverage.
- Defaults on LLR loans will not be counted in the lender's cohort default rate calculation.
  [DCL 93-L-161; DCL 94-L-165]

3.7.C.
How the LLR Program Works

If a student who is eligible for a subsidized Stafford loan is unable to find a lender willing to make a loan—or is attending a school that has been designated as an LLR school—the student should contact the guarantor in the student's state of residence, or the guarantor in the state in which the student's school is located, to request the loan. Within 60 days of receipt of an original, complete application, the guarantor must respond to the student with an approval or denial. If the LLR loan is approved, the guarantor will either designate an eligible lender to make the LLR loan or serve as the lender under the LLR program itself.

Some guarantors have different interpretations of what is required within 60 days of receiving a student's request for an LLR loan. These interpretations are noted in appendix C.

An LLR loan may not exceed the borrower's need nor be for an amount less than $200. A lender under the LLR program may refuse to make a loan if the borrower fails to meet the lender's credit standards.

Although not required, some guarantors offer unsubsidized Stafford loans (in addition to the required subsidized Stafford loans) through LLR programs. In cases where a guarantor does not make unsubsidized Stafford loans in its LLR program, the Department may authorize the Student Loan Marketing Association to make unsubsidized Stafford loans. A lender will receive the same benefits for unsubsidized Stafford loans made in an LLR program as it does for such subsidized Stafford loans (see preceding subsection 3.7.B.).
[DCL 94-L-164; *The Federal Student Financial Aid Handbook*]

For More Information

▲ A lender may contact individual guarantors for more information on specific LLR operating procedures. See section 1.5 for contact information.

3.8
Independent Audits

Lenders, secondary markets, and third-party servicers must undergo independent compliance audits to continue eligibility to participate in the FFELP. These audits, which are required by federal law and regulation, are described in this section.
[HEA 428(b)(1)(U); §682.305(c)]

3.8.A.
Annual Compliance Audits

Except as provided below, a lender that makes FFELP loans is subject to a compliance audit at least once a year. The audit must be conducted on a fiscal-year basis by a qualified independent organization or person, in accordance with standards established for the audit of governmental organizations and programs by the U.S. Comptroller General. The audit must cover the period since the most recent audit.

The audit must examine the lender's compliance with the Act and applicable regulations and must examine the lender's financial management of its FFELP activities. If the lender is required to submit the audit report to the Department, the report must be submitted within 30 days of the report's completion—but no later than 6 months after the close of the audit period.

A lender is required to submit the compliance audit report to the Department if, for the fiscal year being audited, it made or held:

- $10 million or more in FFELP loans.

- More than $5 million but less than $10 million in FFELP loans, and its compliance audit report identifies findings of noncompliance.

Generally, a lender is exempt from the annual audit requirement for any fiscal year subject to audit in which the lender made or held $5 million or less in FFELP loans.
A lender who made or held FFELP loans totaling more than $5 million but less than $10 million for the fiscal years being audited and whose report does not disclose findings of noncompliance must retain those reports for a period of 5 years and submit them to the Department only if requested.

An eligible lender that is a bank as defined in section 3(a)(1) of the Federal Deposit Insurance Act, is a wholly owned subsidiary of a tax-exempt nonprofit foundation [as described in §501(c)(3) of the Internal Revenue Code of 1986, and exempt from taxation under §501(1) of the Code], makes FFELP loans only to undergraduate students who are age 22 or younger, and has an FFELP portfolio of $5 million or less, *must submit the results of an audit annually*.
[HEA 428(b)(1)(U); HEA 435(d)(1)(A)(ii)(III)]

Audit Requirements for Lenders That Do Not Make or Purchase Loans with Tax-Exempt Obligations

If a lender does not make or purchase FFELP loans with tax-exempt obligations, its annual compliance audit must be conducted in accordance with the *Government Auditing Standards* issued by the U.S. General Accounting Office (GAO).

If the lender is a governmental entity, the audit must be conducted in accordance with 31 U.S.C. 7502 and 34 CFR Part 80, Appendix G.

If the lender is a nonprofit organization, the audit must be conducted in accordance with OMB Circular A-133, *Audit of Institutions of Higher Education and Other Nonprofit Institutions*, as incorporated in 34 CFR 74.61(h)(3). If a nonprofit lender qualifies for and chooses the option of a program-specific audit as provided for in Circular A-133, the program-specific audit must be an independent annual compliance audit conducted by a qualified independent organization or person.

If a lender already has been audited in accordance with 31 U.S.C. 7502 for other purposes, the Department may determine that the lender has met the independent compliance audit requirements if the lender submits the results of the audit to the Department for review.
[§682.305(c)]

Specific audit procedures are contained in the audit guide developed and published annually by the Department. For information on how to obtain an audit guide, see subsection 2.3.B.

Audit Requirements for Authorities That Make or Purchase Loans with Proceeds of Tax-Exempt Obligations

An audit for a governmental entity that makes or purchases FFELP loans with tax-exempt obligations must be conducted in accordance with 31 U.S.C. 7502 and 34 CFR Part 80, Appendix G.

An audit for a nonprofit organization that makes or purchases FFELP loans with tax-exempt obligations must be conducted in accordance with OMB Circular A-133 and any supplementary compliance guidelines issued by OMB and the Department. If the organization qualifies for and chooses the option of a program-specific audit as provided for in Circular A-133, the audit must be conducted in accordance with the *Governmental Auditing Standards* issued by the U.S. General Accounting Office (GAO) and the provisions outlined in the Department's applicable audit guide.

Audits of governmental entities or nonprofit organizations must be submitted to the appropriate regional office of the Department.

3.8.B.
Third-Party Servicer Audits

A third-party servicer must arrange for an independent audit of the administration of its FFELP portfolio—unless the servicer contracts with only one lender and the lender's compliance audit involves every aspect of the servicer's administration of its FFELP portfolio. A third-party servicer that contracts with more than one lender must have performed a compliance audit that covers the servicer's administration of Title IV programs for all the lenders for which it services. This requirement may be satisfied with a single audit of all the servicer's functions if the audit encompasses all the services provided for the lenders for which it provides such services. An audit of a third-party servicer must meet the following requirements:

- The audit must examine the servicer's compliance with the Act and applicable regulations.
- The audit must examine the servicer's financial management of its FFELP activities.
- The audit must be conducted in accordance with the *Standards for Audit of Governmental Organizations, Programs, Activities, and Functions* issued by the U.S. General Accounting Office (GAO).
- If the servicer is a governmental entity, the audit must be conducted in accordance with the Single Audit Act.
- If the servicer is a nonprofit organization, the audit must be conducted in accordance with OMB Circular A-133.

Except for the initial audit, an audit must be completed annually and submitted no later than 6 months after the end of the servicer's fiscal year. The initial audit must cover the servicer's first full fiscal year beginning on or after July 1, 1994. Regulations require that the initial audit be submitted within 6 months of the end of the audit period. However, delays in the publication of the servicer audit guide resulted in the Department's allowing servicers to submit the first audit by May 31, 1997. Periods covered by the initial audit depend on when the lender servicer's fiscal year ends:

- If the fiscal year ends June 30 through October 31, the lender servicer may combine the annual compliance audit for fiscal years 1995 and 1996 or may have separate audits performed for each of those years.
- If the fiscal year ends November 1 through December 31, the lender servicer is required to have its initial compliance audit performed for fiscal year 1995.
- If the fiscal year ends January 1 through June 29, the lender servicer is required to have its initial compliance audit performed for fiscal year 1996.
[§668.23(c); §682.416(e); DCL LS-97-01]

If a servicer had an independent audit performed of its servicing functions for fiscal years 1995 and 1996 to support the lender audit requirement, the servicer may submit those audits to the Department in order to meet its servicer audit requirement for those fiscal years, provided those audits meet certain standards. Servicers should consult the *Audit Guide: Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program, published December 1996.*

3.9
Exceptional Performer Designation

A lender or lender servicer may seek an exceptional performer designation from the Department. An exceptional performer will receive 100% reimbursement on all loans submitted for claim payment during the 12-month period following its receipt of a notice of designation. The receipt date for the exceptional performer notice of designation is assumed to be no later than 3 days after the date the notice is mailed—unless the lender or servicer is able to prove otherwise.

An exceptional performer designation for a lender or servicer with two or more site locations covers all of its site locations. Exceptional performer designations for individual site locations of such a lender or servicer are not permitted.

An exceptional performer designation is based only on the loans that the exceptional performer services directly. If a lender contracts with a servicer to fulfill a portion of its responsibilities under the FFELP, the lender may not obtain a designation based on functions performed by its servicer. A designation applies to all loans serviced by the exceptional performer—with the exception of defaulted loans that have not been serviced by the exceptional performer for the last 180 days before default.

3.9.A.
Applying for the Designation

To apply for an exceptional performer designation, a lender or servicer must submit the following information to the Department and to each appropriate guarantor:

- A written request with the applicant's name and address; the name of a contact person; the lender identification number (LID), if applicable; and the name and address of each applicable guarantor.

- A copy of an annual financial audit conducted in accordance with the Audit Guide developed by the Department. A lender may submit a copy of an annual audit required under 34 CFR 682.305(c) if the audit period ends no more than 90 days before the date the lender submits its request for designation. A servicer may submit a copy of the annual financial audit, as defined in 34 CFR 682.416(e), if the audit period ends no more than 90 days before the date the servicer submits its request for designation.

- A compliance audit of its loan portfolio, conducted by an independent organization, that yields a compliance performance rating of 97% or higher with respect to all due diligence requirements (such as skip tracing, conversion to repayment, timely claim filing). The period covered by this audit may end no more than 90 days before the date the lender or servicer submits its request for designation. A servicer may satisfy this requirement by submitting its annual compliance audit as outlined in 34 CFR 682.416(e), if the servicer includes in its report a measure of its compliance performance rating required under 34 CFR 682.415(a)(2)(iii)(A), and the audit is performed in accordance with an audit guide developed by the Department.

If the applicant is a servicer, it must include with the preceding information a statement from its owner or chief executive officer certifying that the servicer meets the definition of a servicer for the purposes of exceptional performer designations.

3.9.B.
Department Determination of Request for Designation

In determining whether to grant an exceptional performer designation, the Department considers the following:

- Information provided by the applicant.

- Information provided by a guarantor.

- Any other information in the Department's possession—including information submitted by any other agency or office of the federal government.

The Department will notify the lender or servicer and each appropriate guarantor of the approval or denial. If the request is denied, the reasons for denial will be provided.

To maintain its exceptional performer designation, a lender or servicer must undergo a quarterly compliance audit. A designation will be revoked if the audit indicates that a lender or servicer failed to maintain at least 97% compliance for two consecutive months or 90% for one month. If a lender or servicer is designated an exceptional performer for at least 15 months, it may petition the Department to have future quarterly compliance audits, as required under 34 CFR 682.415(b)(6)(i), conducted by the lender's or servicer's internal auditor.
[§682.415; HEA 428I]

4 School Participation

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Chapter 4 outlines general requirements for schools participating in the Federal Family Education Loan Program (FFELP). These procedures and criteria reflect both federal regulations and guarantor policies. Although SLS loans are no longer being made, information on them is included in some sections for reference.

In addition to meeting the terms and conditions of its Program Participation Agreement with the Department, a participating school must comply with:

- 34 CFR Part 99 (Family Educational Rights and Privacy), 34 CFR Part 600 (Institutional Eligibility), 34 CFR Part 668 (General Provisions), and 34 CFR Part 682 (FFELP)—as well as other Department directives.
- State licensing requirements.
- Guarantor policies, procedures, and requirements.
- Accrediting agency requirements.
- All other related requirements for schools, as specified in the Higher Education Act of 1965, as amended.

A participating foreign school is required to comply with the provisions of the regulations, except to the extent that the Department states in the regulations, or in other official publications or documents, that foreign schools are exempt from certain provisions.
[§682.611]

4.1
Institutional Eligibility

The following types of schools may apply for participation as an eligible institution:

- Public or private nonprofit institutions of higher education.
- Proprietary institutions of higher education (private and for-profit).
- Public or private nonprofit postsecondary vocational institutions.
[§600.4; §600.5; §600.6]

4.1.A.
Establishing Eligibility

To participate in any Title IV program, a school must establish its eligibility under the Higher Education Act of 1965, as amended, by following the procedures specified by the Department.

The school may begin participating in Title IV programs on or after the date the Department signs a Program Participation Agreement with the school and one of the following occurs:

- The school completes the Title IV program training provided by the Department.
- The Department conducts an on-site Title IV certification review of the school.

By entering into a Program Participation Agreement, the school agrees to comply with all requirements specified in statute and federal regulations, including:

- The school will not charge a student a fee for processing or handling any application, form, or data required to determine the student's eligibility for assistance, including the amount of the Title IV assistance.
- The school will inform eligible Stafford and PLUS loan borrowers of the availability of state grant assistance from the state in which the school is located, and will inform out-of-state borrowers of the source of information for assistance in the student's home state.
- The school will not certify a loan that exceeds the borrower's eligibility.
- The school will submit all required reports within the time frames specified.
- If the school advertises job placement rates as a means of attracting students to enroll, the school will make available to all prospective students—at or before the time of application for admission—the most recent data concerning employment statistics, graduation statistics, and any other information necessary to substantiate these advertisements.

- The school will operate a drug abuse prevention program that is available to any officer, employee, or student of the school.

- The school will not impose any penalty—such as assessing late fees, denying access to classes, libraries, or other school facilities, or requiring the student to borrow additional funds for which interest or other charges are assessed—on any student because of the student's inability to meet his or her financial obligations to the school as a result of the delayed disbursement of Title IV loan proceeds due to compliance with statutory and regulatory requirements applicable to the Title IV programs, or delays attributable to the school.
  [§668.14]

The Department will notify a school in writing whether the school qualifies in whole or in part as an eligible institution. The school also is notified of the Title IV programs in which it is eligible to participate.

If only a portion of the school qualifies as an eligible institution, the Department will specify in the notice each location and/or educational program that qualifies.

Upon being approved by the Department, a school becomes eligible to apply for participation in the FFELP with the guarantor. For any school, the guarantor must be satisfied that the school has the ability to properly administer the FFELP according to federal regulations and the guarantor's policies before it will approve the school for participation under its guarantee.

▲ Schools may contact individual guarantors for more information on specific eligibility procedures and required supporting documentation. See section 1.5 for contact information.

A school may participate in the Federal Direct Student Loan Program (FDLP) and the FFELP at the same time. However, a school is prohibited from certifying a loan of the same type (Stafford, PLUS) under both programs for the same borrower for the same loan period. The parent of an eligible student may borrow only under the program (FFELP or FDLP) from which the student borrowed, or would have borrowed if the student had received a loan.

4.1.B.
Written Agreements between Schools

A written agreement may be made between two or more eligible schools, or between eligible and ineligible schools, in which one school agrees to have a portion or all of its educational program provided at or by the other school(s). A student may take courses at a school that is party to the contract and have those courses count toward the degree or certificate that is granted by the home school. The agreement applies to any courses for which a student has been certified as eligible for Title IV assistance.

An eligible school must award credit to students in any contracted portion of the program on the same basis as if it provided that portion itself.

If the agreement is with an ineligible school, one of the following criteria must be met:

- The contracted portion of the program provided by the ineligible school must not exceed 25% of the student's total program of study.

- The contracted portion of the program must not exceed 50% of the total program of study if the ineligible school is not owned or controlled by the same individual or company as the eligible school and the eligible school's accrediting agency or the state agency that approves public postsecondary vocational education determines that the written agreement is in accordance with the agency's standards.

Also, the ineligible school must not have been terminated from participation in Title IV programs and may not have withdrawn from participation in Title IV programs under a termination, show-cause, suspension, or similar proceeding.

The contracted portion of an educational program may cover many situations—for example, a study-abroad program, or a cosmetology training program given wholly by an ineligible cosmetology school under contract with an eligible community college, vocational school, or technical school. A baccalaureate institution does not jeopardize its eligible programs if no more than one academic year is spent by students at an ineligible institution, such as a foreign school under the junior-year-abroad concept. At predominantly associate degree–granting institutions, eligible programs are not jeopardized if students spend no more than one semester or one quarter (25% of the total program of study) studying under contract at an ineligible institution.

A school may contact the Department's Institutional Participation Division for a determination of the eligibility of a program based on a written agreement.

The content of a written agreement may vary widely, depending on the interests of the schools involved and the accrediting agency or state agency standards. Certain information should be included in all agreements: which school will consider the student enrolled; how much the student's tuition, fees, and room and board will cost at each school; what the student's enrollment status will be at each school; and how reporting the student's enrollment status will be handled. Procedures for calculating financial aid awards, disbursing aid, keeping records, and processing Title IV refunds also should be included in the agreement. The school that the student pays is responsible for issuing Title IV refunds. Additional information on written agreements between schools can be found in 34 CFR 600.9 and in *The Federal Student Financial Aid Handbook.*

Upon request, a school must provide to the guarantor—in a timely manner—copies of any written agreement between one of its eligible schools and another organization where the other organization provides all, or part of, the educational program for students enrolled in the school. [§600.9]

4.1.C. Maintaining Eligibility

To maintain its eligibility to participate, a school must continue to meet all school eligibility requirements and must administer its loan programs in accordance with all requirements outlined in federal law and regulation, as well as in guarantor policies and procedures. A guarantor reserves the right to limit, suspend, or terminate a school's eligibility for failure to meet these requirements (see chapter 12).

Notification Requirements

A school must notify the Department and each applicable guarantor in writing—within 10 days—if any of the following occurs:

- The school or a location of the school changes ownership, and a change in control results.
- The school undergoes a change in person(s) exercising substantial control.
- The school changes its name or address, or the name or address of another location of the school where it offers at least 50% of an educational program.
- The school opens or closes a location (such as a branch campus) of the school at which it offers at least 50% of an educational program. A branch campus is defined as a permanent location of a school that is geographically apart and independent of the main campus; that offers courses leading to a degree, certificate, or other recognized educational credential; that has its own faculty and administration or supervision; and that has its own budgetary and hiring authority. A branch campus is one type of "additional location" at which schools may offer instruction to students. A school must establish eligibility for each of its locations (see subsection 4.1.A.).
- The school changes the percentages of the educational programs offered at each location.
- The school adds, deletes, or modifies programs of study.
- The school changes its status (for profit, private nonprofit, or public).
- The school changes the way it measures program length (clock hours or credit hours).
- The school revises a written agreement with another school or organization that provides all or a portion of the school's educational instruction.

A school's eligibility does not automatically continue if the preceding types of changes occur. The Department will notify the school if any reported change affects its eligibility and will provide the effective date of such a change in eligibility.

A school's failure to inform the Department and each applicable guarantor of any of the preceding changes may result in adverse action against the school, including loss of eligibility.
[§600.2; §600.30; §600.9]

Change of Ownership Resulting in Change of Control

If a school undergoes a change of ownership that results in a change of control, the school's Program Participation Agreement with the Department expires immediately upon the change in control, and the school ceases to qualify as an eligible institution for participation in Title IV programs. A school that undergoes such a change must notify the Department of the date of the change and must submit the following documentation:

- Any required Department forms.
- A letter from the accrediting agency stating that accreditation is continued under the change.
- Documentation of state licensing approval of the change.
- A statement certifying the new owner's (or both the new and previous owners') assumption of liability for the previous owner's administration of Title IV programs.

If the documentation submitted is satisfactory, the school will be issued a new Program Participation Agreement. The school also will be required to reestablish eligibility with each applicable guarantor.
[§600.31]

Eligibility for New or Modified Program of Study

When an eligible school adds a new educational program, or substantially modifies an existing program, eligibility may not extend automatically to the new program. Instead, the school may be required to apply for approval by the Department to provide Title IV funds to students enrolled in the new program, which must meet all eligibility requirements. Before adding a new program of study, the school should contact the Department for guidance.

The school is ultimately responsible for ensuring that a program is eligible before awarding Title IV funds to students in the program. The school needs to ensure that program length and admissions criteria comply with Title IV requirements, that a degree or certificate is awarded upon completion, that the program is authorized by the appropriate state agency, and that it is included under the notice of accreditation from a nationally recognized accrediting agency.

A school is not always required to notify the Department of the addition of new programs. The school itself may determine the program's eligibility in either of the following cases:

- The additional program leads to an associate, bachelor's, professional, or graduate degree, and the Department has already approved the school for programs at that level.
- The additional program prepares students for gainful employment in the same or a related recognized occupation as an educational program that the Department has designated as eligible at the school, and the added program is at least 8 semester hours, 12 quarter hours, or 600 clock hours in length.

If a school determines incorrectly that an additional program of study satisfies eligibility requirements and does not apply to the Department for approval, the school is liable for repayment of all Title IV funds received by the school for the ineligible program as well as for all funds received by or on behalf of students enrolled in the ineligible program of study from the date of the school's addition of the program.

Eligible Programs

To qualify as an eligible institution, a school must offer at least one eligible program, although not all programs at an institution may be eligible. A school may offer programs that meet different eligible-program definitions.

A public or private nonprofit institution of higher education must meet the eligibility requirements noted in the introduction to chapter 4, must be a nonprofit school, must meet academic-year requirements (see subsection 5.7.A.), and must offer one or more of the following:

- A program that leads to an associate, bachelor's, professional, or graduate degree.
- A program of at least 2 academic years in duration that is acceptable for full credit toward a bachelor's degree.
- A program of at least 1 academic year in duration that leads to a certificate, degree, or other recognized credential and that prepares students for gainful employment in a recognized occupation.

Proprietary institutions of higher education and public and private nonprofit postsecondary vocational institutions must meet all eligibility criteria in the introduction to chapter 4; must provide training for gainful employment in a recognized occupation; must have been legally authorized to give (and have been giving) postsecondary instruction for at least two consecutive years; and must offer one of three types of eligible programs:

- A program that provides at least 600 clock hours, 16 semester or trimester hours, or 24 quarter hours of undergraduate instruction offered during a minimum of 15 weeks, beginning on the first day of classes and ending on the last day of classes or examinations. The program may admit as regular students persons who have not completed an associate degree or the equivalent.

- A program that provides at least 300 clock hours, 8 semester or trimester hours, or 12 quarter hours of instruction offered during a minimum of 10 weeks, beginning on the first day of classes and ending on the last day of classes or examinations. The program must be a graduate or professional program or must admit as regular students only persons who have completed an associate degree or the equivalent.

- A "short-term" program that provides at least 300 but less than 600 clock hours of instruction during a minimum of 10 weeks, beginning on the first day of classes and ending on the last day of classes or examinations. The program must admit as regular students some persons who have not completed an associate degree or the equivalent. These programs are eligible only for FFELP purposes. The institution must have a substantiated completion rate and a placement rate of at least 70%. The number of clock hours provided in the program must not exceed by more than 50% the minimum number of clock hours required for training in the recognized occupation for which the program prepares students, as established by the state in which the program is offered, if the state has such a requirement, or as established by any federal agency. (See chapter 3 of the *Federal Student Financial Aid Handbook* and 34 CFR 668.8 (c) through (g) for more information on completion rate and placement rate calculations.)

Programs that qualify at an otherwise eligible proprietary institution or a postsecondary vocational institution are required to have a minimum number of weeks of instruction (see subsection 5.7.C. for determining the period of enrollment). For all programs except credit-hour programs without standard terms, a "week of instruction" is any 7-day period in which at least one day of regularly scheduled instruction, examination, or preparation for examination occurs. Periods of orientation, counseling, vacation, or other activity not related to class preparation or examination are not included.

For credit-hour programs without standard terms (semesters, trimesters, or quarters), a week of instruction must include at least 12 hours of instruction, examinations, or preparation for examination within a consecutive 7-day period. In effect, this 12-hour rule requires a school to demonstrate that certain programs have not only a minimum number of weeks but also a minimum number of hours. For example, in order for a program to meet the eligible-program definition, the program must meet for a minimum of 15 calendar weeks over which a minimum of 180 hours of instruction, examinations, or preparation for examinations occur (i.e., 12 hours of instruction, examinations, or preparation for examinations each week for 15 calendar weeks).
[§600.10(c); §668.8; *The Federal Student Financial Aid Handbook*]

Eligibility of Credit-Hour Programs

Schools that measure progress in credit hours must determine the Title IV eligibility of their undergraduate programs using the formulas listed below, except in the following cases:

- The program is at least 2 academic years in length and provides an associate, bachelor's, or professional degree or the equivalent, as determined by the Department. (Note: This exception does not permit a school to ask for a determination that a nondegree program is equivalent to a degree program).

- Each course within the program is acceptable for full credit toward that school's associate, bachelor's, or professional degree, or a degree that the Department has determined to be equivalent at the school, and the degree requires at least 2 academic years of study.

- The program is offered by a public or private nonprofit hospital-based school of nursing that awards a diploma at the completion of the program.

If the program does not meet one of the preceding three criteria, the school must use the appropriate formula, as follows. Clock hours used in the formula must comply with the regulatory definition (see appendix G).

To determine the number of credit hours in a program for Title IV eligibility purposes, schools must use the appropriate formula, as follows:

For programs measured in semesters or trimesters

$$\frac{\text{Number of clock hours in the credit-hour program}}{30}$$

For programs measured in quarters

$$\frac{\text{Number of clock hours in the credit-hour program}}{20}$$

The school must use the resulting number of equivalent credit hours to determine if a program is eligible under the program requirements. For a program to qualify as eligible by providing at least 16 semester or trimester credit hours or 24 quarter credit hours, the program must include at least 480 clock hours of instruction. For a program to qualify as eligible by providing at least 8 semester or trimester credit hours or 12 quarter credit hours, the program must include at least 240 clock hours of instruction.

A program that fails to include the minimum number of equivalent semester, trimester, or quarter credit hours of instruction does not qualify as an eligible program regardless of whether the Department previously designated that program as an eligible program. A school may not deliver the proceeds of any loan to a student enrolled in such a program regardless of when that program began. The school must return to the lender any loan funds delivered to or on behalf of students enrolled in a program that does not qualify as an eligible program.
[§600,10(c); §668.8; §668.9; DCL GEN-95-38; *The Federal Student Financial Aid Handbook*, chapter 3.]

School and Program Eligibility at Additional Locations

The eligibility of a school and its programs does not automatically include each separate location of the school. When a school adds a new location that offers at least 50% of an educational program that is not listed in its current eligibility approval letter, the school must apply to the Department to revise its eligibility to include the additional location.
[§600.20; §600.21; §600.32]

Eligibility Change from Branch to Separate Main Campus

If a school's branch campus is accredited separately, and the school wants the branch campus to be granted separate eligibility and be separately funded, the school should follow the procedures in subsection 4.1.A. on establishing eligibility for the branch campus.

In addition, if the school is a proprietary institution or a postsecondary vocational institution, the branch campus must be in continuous existence for two years before it may be designated as a separate main campus.
[§600.5; §600.6]

4.1.D. Loss of Eligibility

If a school ceases to meet any Title IV eligibility requirement, the school must immediately provide written notice to the Department and each applicable guarantor.

A school's eligibility remains in effect until termination by the Department or a guarantor—or until the effective date of a loss of eligibility for any of the following reasons:

- The school permanently closes.
- The school's eligibility expires.
- The school's provisional eligibility is revoked.
- The school, one or more of its owners, or its chief executive officer has pled *nolo contendere* to, or is found guilty of, a crime involving the acquisition, use, or expenditure of Title IV funds—or has been judicially determined to have committed fraud involving Title IV funds.
- The school loses its licensure or accreditation.
- The school undergoes a change of ownership resulting in a change of control.
- The school stops providing educational programs for a reason other than a normal vacation period or natural disaster that directly affects the school or its students.
- The school or a controlling affiliate of the school files for bankruptcy or is forced into bankruptcy by its creditors.

- The school does not agree to submit any dispute involving the final denial, withdrawal, or termination of its accreditation or preaccreditation to binding arbitration before initiating any other legal action.

In addition, a school ceases to satisfy the definition of an eligible institution for participation in Title IV programs if, during the school's latest complete award year, any of the following conditions apply:

- More than 50% of the courses offered by the school were offered as correspondence courses—unless the school is exempt under the Carl D. Perkins Vocational and Applied Technology Education Act.

- The percentage of the school's regular enrolled students who were enrolled in correspondence courses is 50% or more. A regular student is one who is enrolled or accepted for enrollment at the school for the purpose of obtaining a degree, certificate, or other recognized educational credential offered by the school. A school is exempt from this rule if it offers a two-year or four-year degree program and the students enrolled in the correspondence courses receive no more than 5% of the total of Title IV funds received by all students at the school. The school also is exempt if it is eligible under the Carl D. Perkins Vocational and Applied Technology Education Act.

- The percentage of the school's regular enrolled students who were incarcerated is 25% or more—unless the school is a nonprofit institution offering a two-year or four-year degree program and the Department agrees to waive this rule.

- The percentage of the school's regular enrolled students who had neither a high school diploma nor the recognized equivalent of a high school diploma is 50% or more, and the school does not provide a two-year or four-year degree program. A nonprofit school may be exempt from this rule if it demonstrates to the Department that it exceeds the 50% threshold because it serves, through government contracts, significant numbers of such students. No more than 40% of the school's total enrollment may consist of students who lack a high school diploma, or its equivalent, and who are not served through the government contracts.

85% Rule for Proprietary Schools

Federal regulations stipulate that proprietary schools must receive no more than 85% of their revenues from Title IV funds. If a school fails to meet this requirement, it is ineligible to participate in all Title IV student assistance programs. This requirement is known as the 85% rule.

The determination of whether a proprietary school meets this requirement is based on the school's most recent fiscal year ending before July 1 of any award year. A school that fails to satisfy the 85% rule during its most recently completed fiscal year loses its eligibility on the last day of that fiscal year.

A school has 90 days after the end of its most recently completed fiscal year to report to the Department and each applicable guarantor that it did not satisfy the 85% rule for that period.

If a school determines that it did satisfy the 85% rule during its most recently completed fiscal year, it must have the independent certified public accountant who prepares its audited financial statement report on the accuracy of the school's calculation—based on performing an agreed-upon procedure attestation engagement. The report must be included as part of the audited financial statement.
[§600.5(a)(8); §600.5(d)–(g); §600.40(a)(2); §668.15]

Close-Out Procedures

When a school closes or otherwise loses its eligibility for continued participation, federal regulations require that the school perform a series of close-out procedures. The school also is required to implement the close-out procedures of the appropriate state licensing authority.
[§600.5; §600.7; §600.40; §668.26]

4.1.E.
Disbursement and Release of Funds in Cases of Loss of School Eligibility

Generally, if a school loses its eligibility to participate in the Department's or a guarantor's programs, a student attending the school may remain eligible to receive outstanding proceeds of a Stafford loan for which the first disbursement has already been received.

A school may credit to a student's account or deliver to the student the proceeds of a Stafford loan disbursement in order to satisfy any unpaid commitment made to the student under the Federal Stafford Loan Program—provided all of the following criteria apply:

- The school's participation in the Federal Stafford Loan Program ends during the student's period of enrollment.
- The Stafford loan commitment was made before the end of the school's participation.
- The commitment was made for the student's attendance during the period of enrollment in which the school's participation ended.
- The proceeds of the first disbursement of the loan were delivered to the student or credited to the student's account before the end of the school's participation.
- The school continues to provide—from the date that the participation ends until the scheduled completion date of that period of enrollment—educational programs to otherwise eligible students enrolled in the school's formerly eligible programs.

The preceding criteria do not apply to every situation in which a school ceases to be eligible to participate in Title IV programs. Because the improper release of student loan funds may result in institutional liability, a school should immediately contact the Department or a guarantor for additional guidance on releasing funds.
[§668.26(d)(2)]

4.2
Administrative Capability Standards

Both guarantors and the Department require, as a condition of administrative capability, that a school designate a capable individual to administer FFELP programs and to coordinate the FFELP programs with the school's other federal and nonfederal aid programs. The school must ensure that an adequate number of qualified personnel are available to administer the loan programs, as outlined in federal regulations.

To effectively manage these programs, a school may contract with consultants or third-party servicers. A school that contracts with an outside consultant or servicer remains responsible for the proper administration of the programs. The school cannot delegate this responsibility, and remains accountable if the consultant or servicer mismanages the programs. The use of a consultant or servicer does not relieve the school of its responsibilities to counsel students on their rights and responsibilities or to provide students with the required exit counseling on loan repayment and debt management.

A school must demonstrate that it is capable of adequately administering the FFELP by meeting the following additional requirements:

- The school must administer the FFELP with adequate checks and balances as well as adequate internal controls.
- The school must divide the functions of authorizing payments and delivering FFELP funds.
- The school must establish and publish standards for measuring satisfactory academic progress. These standards must, at a minimum, conform to the standards detailed in the federal regulations.
- The school must provide required program and fiscal reports in a timely manner.
- The school must show no evidence of significant problems as determined in a program review.
- The school must participate in the electronic processes that the Department provides at no substantial charge to the school. These processes will be identified in notices published in the *Federal Register*. The Department expects to provide these notices annually. Schools are not restricted to using only software and services provided by the Department.
  [§682.203(a); §668.16; §600.40]

4.2.A.
Financial Aid Administrator Responsibilities

A capable financial aid administrator (FAA) makes effective use of the various types of financial assistance (federal, institutional, state, private) available to the school's students. An FAA's other responsibilities include:

- Ensuring that the Federal Stafford and PLUS Loan Programs at the school are administered according to federal regulations and guarantor policies.
- Ensuring that each borrower receives adequate financial aid and debt management counseling.
- Ensuring that each student's financial aid package does not exceed the student's need nor cause a student or parent to borrow more than is necessary to pay for the cost of education.

To fulfill his or her responsibilities, an FAA must communicate effectively with other school offices (such as the admissions office, the bursar's office, and the veterans affairs office). School administrators facilitate effective financial aid administration by ensuring that communication between these offices is open and timely, and that all relevant information is shared. A school is expected to have written procedures or information indicating the responsibilities of the various offices with respect to the approval, disbursement, and delivery of Title IV program assistance. To properly package student financial aid, the FAA must have coordinating—but not necessarily controlling—authority for all financial aid programs offered by the school.

A list of financial aid publications that may assist an FAA in maintaining an effective program is included in section 2.3.

To effectively manage the school's programs, an FAA must be supported by an adequate number of qualified staff members. The number of staff members required depends on the number of students to be counseled, the number of applications to be evaluated and processed, the amount of funds to be administered, and the type of financial aid delivery system used by the school. A school's financial aid office must be staffed adequately to assist students in applying for aid and to answer questions during standard business hours. The functions of authorizing payments and disbursing or delivering funds must be separated so that no office has responsibility for both functions with respect to any student receiving Title IV aid. The two functions must be carried out by at least two organizationally independent individuals who are not members of the same family. Adequate staffing at one school may be considered inadequate at another. A guarantor will evaluate the adequacy of a school's staffing and the availability of its personnel during any program review it conducts. [§668.16(b)]

4.2.B.
Financial Aid Administrator Training

A school's financial aid administrator (FAA) and staff must be adequately trained. Each school is strongly encouraged to develop a financial aid policy and procedures manual that outlines the forms and procedures used in administering Title IV programs. A publication provided by the Department—*The Federal Student Financial Aid Handbook*—can assist in the training of an FAA or financial aid staff and can serve as a reference guide for the school. The Department makes this and other publications available to schools participating in Title IV programs. For more information on available publications and how to order them, see subsection 2.3.B.

An FAA may obtain additional information or assistance from any of the following sources:

- A training conference provided by the Department or a guarantor.
- The school's state, regional, or national associations of financial aid professionals.
- The appropriate U.S. Department of Education regional office (see appendix D for contact information).
- Guarantor newsletters.
- Guarantor customer assistance units (see section 1.5 for contact information).
- The financial aid publications listed in section 2.3 of this manual.

4.2.C. Withdrawal Rates

A participating school must meet the following requirements with respect to its withdrawal rates:

- The school must maintain withdrawal statistics on students in a manner consistent with federal regulations.

- The school must develop and document procedures to control or reduce the withdrawal rate. Such procedures may be evaluated in a program review.
[§668.16(l)]

Guarantors generally believe that a withdrawal rate of more than 25% may signify an impairment of the school's ability to effectively manage its student loan programs.

4.3 Financial Responsibility Standards

Federal regulations require that a school meet all of the following financial responsibility criteria:

- The school must provide all services described in its official publications and statements.

- The school must properly administer the Title IV programs in which it participates.

- The school must meet all of its financial obligations.
[§668.171(a)]

4.3.A. General School Financial Responsibility Requirements

Financial Statements and Audit Requirements

Each year, a school is required to submit to the Department—for the school's most recently completed fiscal year—a financial statement prepared on an accrual basis according to generally accepted accounting principles and audited by an independent auditor or a government auditor. The financial statement must be prepared in accordance with generally accepted auditing standards and, if applicable, other guidance contained in the Office of Management and Budget Circulars A-133 and A-128 or in the Office of the Inspector General's audit guides. The audited financial statement and the compliance audit report may be separate reports prepared by different auditors, provided that both are conducted on a fiscal-year basis and are submitted together. The Department also may request other documentation that it believes is necessary to make a determination of financial responsibility. As a part of its financial statement, the school must include a detailed description of related entities (as defined in the Statement of Financial Accounting Standards) and should list parties related to the school and details that would enable the Department to readily identify the related entities. The Department also may require the submission of additional financial statements that define the school's financial relationships to related entities that have the ability to significantly influence or control the school. A proprietary school must disclose in a footnote to its financial statement the percentage of its revenues derived from Title IV programs during the covered fiscal year.
[§668.23(a)(4); §668.23(d)(1), (2), and (4)]

A school's financial statement must be submitted annually within 6 months of the end of its fiscal year. The Department may request more frequent filings or, with good cause, may extend the filing deadline.
[§668.23(a)(4)]

In addition, each year a school must submit to the Department a compliance audit of its administration of Title IV programs, conducted on a fiscal-year basis by an independent auditor. The compliance audit must be submitted to the Department not more than 6 months after the end of the school's fiscal year. The compliance audit must cover all Title IV transactions in that fiscal year and all transactions that occurred since the period covered by its last compliance audit. It must be conducted in accordance with generally accepted standards for compliance audits and procedures for audits contained in the Department's audit guide. The Department may also require the school to provide copies of its compliance audit report to guarantors, eligible FFELP lenders, state agencies, the Secretary of Veterans' Affairs, or nationally recognized accrediting agencies.
[§668.23(b)]

Schools that have a compliance or financial audit performed must allow the Department or its authorized representative access to records, audit work papers, and other documents necessary to review the audit, including the right to obtain copies of those records, work papers, and documents. The

school must also require the auditor to permit the Department or its authorized representative access to its records and papers regarding the school's audit. In addition, the school must permit the Department or its authorized representative access to any records or documentation that would assist in the review of a third-party servicer's compliance or financial statement audit.
[§668.23(e)]

A foreign school must also submit an audited financial statement of the most recently completed fiscal year. If the school received less than $500,000 (U.S.) in Title IV program funds during that fiscal year, its audited financial statement for that year may be prepared under the auditing standards and accounting principles of the school's home country. If the foreign school received $500,000 (U.S.) or more in Title IV program funds during its most recently completed fiscal year, the school must submit its audited financial statement in accordance with U.S. federal regulation and satisfy the general standards of financial responsibility outlined for schools in the United States, or must qualify under an alternate standard of financial responsibility specified in regulation.
[§668.23(d)(3); §668.175]

Past Performance Requirements

A school is not considered financially responsible if one or more of the following situations exist:

- A person who exercises substantial control over the school, or any member of that person's family, owes a liability payment for a violation of a Title IV program requirement or has exercised substantial control over another school or a third-party servicer that owes a liability payment for a violation of a Title IV program requirement. However, if the party to whom the liability was assessed is making payments in accordance with a repayment agreement, this factor is not considered to reflect a lack of financial responsibility.

- The school is currently limited, suspended, or terminated as a participating FFELP school by the Department or by a guarantor, or the school has entered into a settlement agreement to resolve such an action within the preceding 5 years.

- The school has had an audit or program review finding in its two most recent audits or program reviews that resulted in the assessment of liabilities exceeding 5% of the funds received by that school under Title IV for any award year covered by that audit or program review.

- The school has been cited during any of the preceding 5 years for failure to submit acceptable, timely audit reports as required in program regulations.

- The school has failed to satisfactorily resolve compliance problems identified in a program review or audit.
[§668.174]

Administrative Actions

If the Department determines that a school is not financially responsible, or if a school does not submit its financial statements and compliance audits within the required time frame, the Department may initiate an action to fine the school or to limit, suspend, or terminate the school's participation in Title IV programs.
[§668.171(a), (b), (d), and (e); §668.172]

4.3.B. Specific Criteria for Determining School Financial Responsibility

Public Schools

Generally, a public school is considered to be financially responsible if all of the following conditions are met:

- The school notifies the Department that it is designated as a "public institution" by a government entity that has legal authority to make that designation.

- The school provides a letter from the designating government entity confirming the school's status as a "public institution."

- The school is not in violation of any past performance requirement.
[§668.171(c)]

Proprietary Schools and Private Nonprofit Schools

Generally, a proprietary school or private nonprofit school is considered to be financially responsible if all of the following characteristics apply:

- The school is current in its debt obligations.
- The school's financial statements do not contain a statement in which the auditor has expressed doubt about the continued existence of the school.
- The school has not violated a Title IV program requirement or affiliated persons do not owe a liability for Title IV program violations.
- The school has sufficient cash reserves to make required refunds (see subsection 4.3.C.).
- The school's Equity Ratio, Primary Reserve Ratio, and Net Income Ratio yield a composite score of at least 1.5 (see subsection 4.3.D.).
  [§668.171(b) and (d)]

A proprietary school or private nonprofit school that is not considered to be financially responsible because it failed to meet any of the standards of financial responsibility listed above may begin or continue to participate in the Title IV programs by qualifying under an alternative standard, as determined by the Department.
[§668.175]

4.3.C. Sufficient Cash Reserve Requirements

A school is considered to have sufficient cash reserves to make required refunds if the school meets at least one of the following:

- The school satisfies the financial responsibility standards for public schools.
- The school is licensed to operate in a state that has a Department-approved tuition recovery fund to which the school contributes.
- The school demonstrates that it has paid its refunds in a timely manner for both of the school's two most recently completed fiscal years. For more information on how a school demonstrates that it makes required refunds in a timely manner, see subsection 4.7.C.

If a school fails to meet at least one of the criteria listed above, it must submit an irrevocable letter of credit that is acceptable and payable to the Department and that is equal to 25% of the total dollar amount of Title IV program refunds paid or that should have been paid by the school in the previous fiscal year.
[§668.171(c)(1); §668.173(a)(1)]

4.3.D. Composite Score

The composite score determines the overall financial status of a participating proprietary or private nonprofit school. The Department uses a school's audited financial statements to calculate the composite score, which is derived from a combination of the following three ratios:

- The Primary Reserve Ratio, indicating the measure of a school's expendable or liquid resources in relation to its overall size.
- The Equity Ratio, measuring the amount of total resources financed by the owner's investments, contributions, or accumulated earnings.
- The Net Income Ratio, providing a direct measure of a school's profitability and ability to operate within its means.

The three ratios are adjusted by strength factors and weighting factors and are then added together to arrive at a composite score. This process permits a meaningful comparison of the relative financial strength of schools of different sizes and types. A school's financial responsibility is determined by this composite score. Composite scores range from –1.0 to +3.0, with a factor of –1.0 indicating relative financial weakness and a factor of +3.0 indicating financial stability. Schools that achieve a composite score of at least 1.5 are considered financially viable.

The chart on the next page contains the ratios, strength factors, and weighting factors for calculating a school's composite score.
[§668.171; §668.172]

CALCULATING THE COMPOSITE SCORE FOR PROPRIETARY SCHOOLS AND PRIVATE NONPROFIT SCHOOLS

The following steps illustrate how the Department calculates a school's composite score.

Step 1: From the school's financial statement information, calculate three financial ratios.

Ratios	*Proprietary Schools*	*Private Nonprofit Schools*
Primary Reserve Ratio	$\dfrac{\text{Adjusted Equity}}{\text{Total Expenses}}$	$\dfrac{\text{Expendable Net Assets}}{\text{Total Expenses}}$
Equity Ratio	$\dfrac{\text{Modified Equity}}{\text{Modified Assets}}$	$\dfrac{\text{Modified Net Assets}}{\text{Modified Assets}}$
Net Income Ratio	$\dfrac{\text{Income Before Taxes}}{\text{Total Revenues}}$	$\dfrac{\text{Change in Unrestricted Net Assets}}{\text{Total Unrestricted Revenues}}$

Step 2: Use the three ratios from step 1 to determine the appropriate strength factor scores.

Proprietary Schools	*Private Nonprofit Schools*
Primary Reserve Ratio x 20 = Strength Factor Score	Primary Reserve Ratio x 10 = Strength Factor Score
Equity Ratio x 6 = Strength Factor Score	Equity Ratio x 6 = Strength Factor Score
(Net Income Ratio x 33.3) + 1 = Strength Factor Score	If Net Income Ratio is positive: (Net Income Ratio x 50) + 1 = Strength Factor Score If Net Income Ratio is negative: (Net Income Ratio x 25) + 1 = Strength Factor Score If Net Income Ratio is 0: Strength Factor Score = 1

Step 3: Multiply each of the three strength factor scores from step 2 by the appropriate weighting factor.

	Primary Reserve Weighting Factor	*Equity Weighting Factor*	*Net Income Weighting Factor*
Proprietary	30%	40%	30%
Private Nonprofit	40%	40%	20%

Step 4: Add the three weighted strength factor scores from step 3 to obtain the composite score.

Composite Score	*Interpretation*
1.5 to 3.0	School meets the composite score requirements.
-1.0 to 1.4	School does not meet the composite score requirements, but may participate under alternative requirements.

[§668 Appendix F and Appendix G]

4.4
Reporting Social Security Number Changes

If a school becomes aware of a discrepancy with any student's or borrower's social security number (SSN) at any time during the life of the loan, the school must notify the guarantor of the discrepancy. Guarantors consider any of the following source documents to be a valid basis for initiating and reporting an SSN change:

- Social security card or other Social Security Administration document.
- Income tax return or W-2 form.
- Official military orders, documents, or papers.
- Loan application (if the discrepancy resulted from a data input error).
- State driver's license or a state-issued identification card for those states in which the social security number is listed on the license or identification card.

Although the school is expected to verify the correct SSN by obtaining a copy of one of these source documents before notifying the guarantor of the discrepancy, an actual copy of the document need not be routinely submitted with the change notification. Instead, the school must notify the guarantor of the change and indicate the source of the information. If the guarantor requests the supporting documentation obtained by the school, the school must promptly provide it.

If a school identifies a discrepancy, exhausts its efforts to verify the correct SSN, and fails to obtain a copy of an acceptable source document, the school should notify the guarantor of the discrepancy. In such cases, the school should indicate the source of the discrepancy and provide its reason for reporting the change. If the guarantor has information suggesting that the identified SSN change is incorrect, it will notify the school.

4.5
Leave of Absence

For leaves of absence granted by a school on or after July 1, 1995, the student on a leave of absence is not considered to have withdrawn from the school and is considered to be on an approved leave of absence if the following conditions are met:

- The student has made a written request for a leave of absence, and the request is clearly documented in the student's file.
- The leave of absence does not involve additional charges by the school to the student. For example, the school may not charge the student additional tuition for course segments that must be repeated upon the student's return from the leave.
- The leave of absence does not exceed 60 days.

In any 12-month period, the school may grant no more than one leave of absence to each student.

A student on an approved leave of absence is considered to be enrolled at the school and is eligible for an in-school deferment if he or she satisfies other deferment eligibility requirements. However, a school may not credit a student's account or otherwise deliver loan proceeds to the student or parent borrower while the student is on an approved leave of absence. The school may credit a student's account or deliver loan proceeds to the borrower if the student has returned from an approved leave of absence on at least a half-time basis within the applicable delivery time frames described in subsection 6.3.E. If the student does not return from an approved leave of absence on at least a half-time basis or the school is otherwise unable to credit the student's account or deliver loan proceeds to the borrower, the school must return the loan proceeds to the lender within the applicable return time frames described in subsection 6.3.G. If the school returns loan proceeds received while the student is on an approved leave of absence, the school may request that the lender reissue those loan proceeds to coincide with the student's scheduled return from an approved leave of absence. See subsection 6.2.G. for reissue requirements.

A student who fails to return to school at the end of an approved leave of absence or whose leave has not been approved must be considered to have withdrawn for purposes of determining the student's last date of attendance and calculating any refund that is due. In addition, a student who is considered by the school to have withdrawn is not eligible for an in-school deferment. See section 4.6 for more information on determining the date of withdrawal and section 4.7 for applicable refund requirements.

A school is strongly encouraged to disclose its leave of absence policy including the requirements for an approved leave of absence as part of its student consumer information.
[§668.22(j)(2); §668.167(b); §682.604(c)(4)]

4.6 Determining the Student's Withdrawal Date

Unless a student has been granted an approved leave of absence or is enrolled in a program of correspondence study, the student's withdrawal date will be the earliest of:

- The date the student notifies the school of the student's withdrawal, or the date of withdrawal specified by the student, whichever is later.
- The last recorded date of class attendance, as documented by the school, if the student does not officially withdraw.

If a student does not return to school at the end of an approved leave of absence, the withdrawal date is the student's last recorded date of class attendance.

The withdrawal date for a student enrolled in a program of correspondence study is the date of the last lesson submitted if the student fails to submit the next scheduled lesson. If the student establishes in writing within the 60-day period from the withdrawal date that he or she intends to continue in the program and understands that the required lessons must be submitted on time, the school may restore the student to an in-school status. The school may not grant the student more than one restoration to in-school status on this basis.
[§668.22(j)(1)]

The school must determine the withdrawal date for a student within 30 days after the last day of the earlier of:

- The period of enrollment for which the student has been charged.
- The academic year during which the student withdrew.
- The educational program from which the student withdrew.

For purposes of reporting enrollment status and deferment information, if a student does not return for the next scheduled term following a summer break or a period of summer bridge deferment (including periods where classes are offered but attendance is not required), the school must determine the student's withdrawal date within 30 days after the first day of the next scheduled term.

A withdrawal date must consist of a month, day, and year. A school must make a good-faith effort to provide the date of a student's withdrawal, including the exact last date of attendance. For schools that cannot provide this date due to system or procedural limitations, the Department has waived the day-specific requirement until the school component of the National Student Loan Data System (NSLDS) is functional.
[§668.22(j)(3)]

Some guarantors require enrollment data to be reported in day-specific format. Schools that are required by their guarantor to report day-specific information must comply with this requirement, regardless of the Department's waiver.
[DCL 96-G-287]

▲ Schools may contact individual guarantors for more information on day-specific reporting requirements. See section 1.5 for contact information.

4.7
Refunds

Each participating school must develop a fair and equitable refund policy. This policy must be applied consistently in determining the amount of unearned tuition, fees, room and board, and other charges that must be refunded on behalf of a student for whom a Stafford or PLUS loan has been received and for whom both of the following apply:

- The student fails to register for the intended enrollment period, withdraws, fails to return from an approved leave of absence, is expelled from school, or otherwise fails to complete the period of enrollment for which the loan was certified.
- A portion of loan proceeds was applied to his or her institutional charges.

A school must document its refund policy in writing. The school must provide a clear written statement of its policy to each prospective student before enrollment, including information on the availability of refund calculation examples. The school also must make its policy known to all students currently enrolled. The written statement must include the procedures a student should follow to obtain a refund—although the school is required to return the allowable Title IV portion of the refund regardless of whether the student follows those procedures. If the school changes its refund policy, the school must ensure that all students are advised of the new policy.
[§668.22(a)]

In the event of a school's closing, termination, suspension of operations, or change in ownership, the school or the school's new owners must comply with the preceding refund requirements for any loans made to the student before the change in status occurred.
[§668.26(b)(7)]

4.7.A.
Refund Amounts

As defined under federal regulations, a refund policy is considered fair and equitable if it provides for a refund that is at least the greater of:

- The amount determined under applicable state law.
- The amount established by the school's nationally recognized accrediting agency, if that accrediting agency's refund policy has been approved by the Department.
- The pro rata amount, if applicable (see the following subsection 4.7.B.).

If none of the preceding is applicable when calculating a refund, the refund must be the greater of:

- The amount established under a policy that has been approved by the Department, such as the federal refund formula found in 34 CFR 668.22(d).
- The amount calculated from the school's institutional refund policy.
  [§668.22(b)]

4.7.B.
Pro Rata Refunds

A pro rata refund must be made by a school to a student attending that school for the first time, if the student withdraws before completing 60% of the enrollment period for which he or she was charged.

To determine whether a student is subject to the pro rata refund prescribed in federal regulations, the school must first determine whether the student attended the school for the first time and completed 60% or less of the enrollment period for which the student was charged before withdrawing. For a student enrolled in a credit-hour program, the school divides the number of weeks that the student attended by the number of weeks in the program for which the student was charged. For a student enrolled in a clock-hour program, the school divides the sum of the number of clock hours that the student actually completed at the point of withdrawal plus any excused absences by the scheduled number of clock hours in the program for which the student was charged. However, a school may include excused absences in the number of clock hours completed only if both of the following conditions exist:

- Under the school's written policy the absences do not have to be made up to complete the program.
- The school documents that the hours actually were scheduled and missed prior to the student's withdrawal.

In addition to the required conditions noted above, the number of excused absences included as hours completed during the enrollment period for which the student was charged must be limited to the least of the following:

- The number of clock hours permitted under the excused absence policy of the school's nationally recognized accrediting agency.
- The number of clock hours permitted under the excused absence policy of the state agency that licenses or authorizes the school to operate in the state.
- 10% of the number of clock hours in the enrollment period for which the student was charged.

[§668.22(b); *1997–98 Title IV Training Guide,*
U.S. Department of Education, pages TG-31 & TG-32]

The Pro Rata Refund Amount

The amount of a pro rata refund must equal or exceed the portion of the tuition, fees, room, board, and other charges assessed the student by the school that are proportionately equal to the remaining (unused) period of enrollment for which the student has been charged as of the withdrawal date, rounded down to the nearest 10% of that period, less any unpaid amount of a scheduled cash payment that would have applied to the period of enrollment for which the student was charged.
[§668.22(c)(1)]

For purposes of a pro rata refund, a "scheduled cash payment" is defined as the amount computed by subtracting the amount paid for by financial aid for the period of enrollment for which the student has been charged—excluding any Title IV disbursements for which the student is still eligible, including late disbursements. The "unpaid amount of a scheduled cash payment" is calculated by subtracting the "out of pocket" amount paid by the student for the period of enrollment for which the student has been charged from the scheduled cash payment.
[§668.22(c)(2)]

The "period of enrollment for which the student has been charged" is the actual period for which a school charges a student. This period must be at least:

- A semester, trimester, or quarter—for credit- or clock-hour schools that employ those designations.
- The greater of the length of the payment period or one-half of an academic year—for credit- or clock-hour schools that do not use semester, trimester, or quarter designations, where the educational program is longer than or equal to an academic year.
- The length of the educational program—for credit- or clock-hour schools that do not use semester, trimester, or quarter designations, where the educational program is shorter than an academic year.
- The longest period for which the student is charged—for schools that employ different periods for different charges.
[§668.22(e)]

Amounts That May Be Excluded from the Pro Rata Refund Amount

When calculating a pro rata refund, the school may exclude from the refund calculation one or more of the following amounts, as applicable:

- A reasonable administrative fee—not to exceed the lesser of $100 or 5% of the tuition, room, board, and other charges assessed the student.
- The "documented cost" to the school of unreturnable equipment or equipment not returned in good condition (allowing for reasonable wear and tear). The enrollment agreement must disclose any restrictions on the return of equipment, and the school must give the student written notice that specific equipment must be returned within 20 days of the student's withdrawal. [§668.22(c)(4) and (5)]

The following amounts should be excluded from "other charges assessed the student":

- Application fees for a student's group health insurance—if that insurance is required for all students and remains in effect throughout the period for which the student was charged.
- Room charges that are passed through the school from an entity not under the control of, related to, or affiliated with the school.
[§668.22(c)(6)]

4.7.C. Processing Refunds

The following requirements apply for a school's processing of Stafford and PLUS loan refunds:

- Refunds must be calculated based on the student's last recorded day of attendance.
- The portion of the student's refund allocated to a FFELP loan must be sent to the lender—not to the student or parent borrower. If the ownership or servicing of the borrower's loan has been transferred, and the school knows the identity of the new holder or servicer, the refund must be made to that entity instead of the original lender.
- Refunds must be paid to the lender in a timely manner, as follows:
  - Within 60 days of the date the student officially withdraws, is expelled, or the school determines that a student has unofficially withdrawn.
  - Within 30 days of the earlier of the date of expiration of the leave of absence, if the student does not return at the expiration of the leave of absence, or the date the student notifies the school that the student will not be returning to the school after the expiration of an approved leave of absence.

The determination of whether a school's refunds have been made timely is based on the findings of the auditor who conducted the school's compliance audits for the school's two most recently completed fiscal years or the Department, state, or guarantor that conducted a review of the school covering those fiscal years. Refunds are considered timely only if both of the following conditions are met:

- The reviewing entity did not find in the sample of student records audited for either fiscal year that the school made late refunds to 5% or more of Title IV recipients who received or should have received a refund, or did not find that the school made more than one late refund in the sample.
- The reviewing entity did not note for either fiscal year a material weakness or a reportable condition in the school's report on internal controls related to refunds.

For more information on determining the student's withdrawal date, see section 4.6. For more information on determining the amount of the refund, see section 4.7.

A school may be assessed financial liability for late refunds. A school must ensure that all Stafford and PLUS loan refunds are paid to lenders within the preceding time frames, as applicable.
[§668.173(b); §682.607(a)(1); §682.607(c)]

When issuing a Stafford or PLUS loan refund to a lender, the school must provide simultaneous written notice of the refund to the student or parent borrower. Evidence of this written notice should be documented in the student's file.
[§682.607(a)(2)]

Guarantors recommend that the school's refund notice to the lender include:

- The student's name and social security number (SSN).
- The parent's name and SSN (for PLUS loan refunds).
- The refund check number.
- The amount of the refund.
- The loan type (subsidized or unsubsidized).
- The loan period.
- The student's graduation date or last date of attendance as at least a half-time student.
- The most recent address that the school has on file for the student.
- The disbursement number.
- The reason for the refund (such as withdrawal, overaward, leave of absence).

The Department publishes examples of refund calculations in chapter 3 of *The Federal Student Financial Aid Handbook*. For information on obtaining the handbook, see subsection 2.3.B.

Applying Refunds

Federal regulations specify the way in which refunds must be applied to reduce or satisfy the student's outstanding federal obligations. Schools must ensure that funds are applied to eliminate outstanding balances on loans and grants for the enrollment period in the following order:

- Unsubsidized Stafford loans.
- Subsidized Stafford loans.
- PLUS loans received on behalf of the student.
- Direct Unsubsidized Stafford loans.
- Direct Subsidized Stafford loans.
- Direct PLUS loans received on behalf of the student.
- Federal Perkins Loans.
- Federal Pell Grants awarded to the student.
- Federal SEOG Program aid.
- Other Title IV assistance awarded the student.
- Other federal, state, private, or institutional student financial assistance received by the student.

The school may refund to the student any monies remaining after refunds have been applied to the preceding balances.
[§668.22(h)]

When returning a loan disbursement to the lender, the school should return the net amount of the disbursement that was received from the lender (the gross disbursement amount minus the guarantee and origination fees). The lender will adjust the guarantee and origination fees.

4.8
Student Status Reporting

A school must develop procedures to ensure that student status changes are reported correctly and in a timely manner to the guarantor and/or to the lender. Some schools may elect to satisfy this requirement through participation in the National Student Loan Clearinghouse (see subsection 4.8.C.).

4.8.A.
National Student Loan Data System (NSLDS) Student Status Confirmation Reporting

The Department has incorporated the Student Status Confirmation Report (SSCR) function into the National Student Loan Data System (NSLDS). Schools that have received a letter from the Department confirming successful submission of an SSCR roster file to NSLDS are exempt from the requirement to provide SSCRs directly to guarantors. Schools that have not received a letter from the Department confirming successful submission of an SSCR roster file to NSLDS must respond both to SSCRs received from NSLDS and SSCRs received from guarantors until otherwise notified by the Department.
[DCL GEN-96-17; DCL GEN-97-9]

▲ Questions concerning the proper completion and submission of SSCR data to the guarantor should be directed to the guarantor that prepared the SSCR. See section 1.5 for contact information.

NSLDS generates an SSCR for each school up to six times per year on a schedule chosen by the school. The Department recommends that schools schedule SSCR cycles every other month during the academic year to eliminate the need for ad hoc reporting (i.e., specific reporting outside a school's normal cycle) of enrollment information.

NSLDS transmits an SSCR electronically to the school or the school's designated servicer at the beginning of each month as designated by the school. For each student listed on an SSCR, a school must report the most current status information available and the effective dates of any changes. The school should indicate whether the student is enrolled on a full-time, half-time, or less-than-half-time basis; has withdrawn or graduated from school; has been granted an approved leave of absence; died while enrolled in school; enrolled but never attended classes; or found to have no record (i.e., the student never registered nor enrolled and the school never certified a FFELP loan). The school also must report any changes to the student's name, date of birth, social security number (SSN), permanent address (and the effective date of the address change), or anticipated graduation date. The school must then return the SSCR data to NSLDS, which forwards enrollment information to guarantors. The guarantor will report all student status changes to the appropriate lenders upon receiving the information from NSLDS.
[§682.610(c); Appendix B of §682]

Schools also should note the following additional instructions:

- Each SSCR must be updated and transmitted electronically to NSLDS within 30 days of the date NSLDS transmitted the SSCR to the school or its designated servicer.

- Each student's enrollment status should be verified through his or her expected graduation (completion) date, rather than through the end of the current academic period (such as a semester end date).

- If a student drops to less than half-time enrollment, withdraws, or graduates and later reenrolls (on at least a half-time basis) at the same school after the school has reported the student's drop, withdrawal, or graduation on an SSCR, the school should promptly report the student's reenrollment to NSLDS to ensure that the student is included on the school's future SSCRs. Otherwise, the student will not reappear on an SSCR, and the school will be unable to reverify the student's enrolled status.

- A student need not attend a summer session to maintain continuous enrollment—unless the period of time that the student is not enrolled would exceed the length of the student's grace period (6 to 12 months, as applicable). If the student intends to continue enrollment on at least a half-time basis during the following fall semester, the school must not report the student as *withdrawn* when the student does not attend summer school—unless the summer session is part of the school's standard academic year or the school has information to indicate that the student will not return.

- If the student was enrolled previously at the school, but is not currently enrolled, the school should provide the borrower's last date of at least half-time attendance. The school should not report the student as *never attended* or *no record found*. If the school has additional information about the student (for example, the student is deceased, has a name change, or has an inaccurate date of birth or SSN), the school must include this information on the SSCR. If the SSN appears to have changed, the school should continue to verify the enrollment status and report the SSN change to NSLDS.

- When reporting a student's status as *no record found*, the school must verify that it has no information for the student (i.e., the student never registered nor enrolled and the school never certified a FFELP loan).

- When reporting a student's status as *never attended*, the school must verify that the student on whose behalf a Stafford or PLUS loan was made enrolled in school but never attended classes. The school should not report the student as *never attended* if the student attended the school during any previous enrollment period. If the student was enrolled for part of an academic year, but did not attend the remainder of the year, the student should be reported as *withdrawn* or *graduated*, as appropriate. Reporting a student as *withdrawn* or *never attended* during the loan period will result in the cancellation of future disbursements and the conversion of the loan to immediate repayment.

- When reporting a student as *withdrawn* or as no longer attending school at least half time, the school should verify that the student is not attending graduate school, taking additional classes at the school, or participating in a study-abroad program.

- When reporting the graduation date for a student, the school should use the date the student completed course requirements—not the date of the graduation ceremony.

- The school must ensure that only one enrollment status is reported for each student. For example, the school must not list a student as both *full-time* and *graduated* on the same SSCR.

An authorized official from the school should review the enrollment data provided on the SSCR for accuracy and completeness before transmitting the report to NSLDS.

Questions on the proper completion and submission of SSCR data to the NSLDS should be directed to the NSLDS Customer Service Center. See appendix D for contact information.
[DCL GEN-96-17; DCL GEN-97-11; *Student Status Confirmation Report (SSCR) User's Guide*]

4.8.B.
Reporting Student Status Changes to the Lender or Guarantor

In addition to requiring the timely completion of student status confirmation reports (SSCRs), federal regulations specify conditions under which a school is to report changes in the student's enrollment status directly to the applicable lender or guarantor.

Unless the school expects to submit an SSCR within the next 60 days, the school must report to the lender or guarantor within 30 days of discovering that a student for whom a FFELP loan was made:

- Has dropped to less than half-time enrollment.

- Has failed to enroll on at least a half-time basis.

- Has ceased to be enrolled on a full-time basis.
[§682.610(c)(2)]

A school should notify the lender and/or guarantor of a status change by any means acceptable to the guarantor (such as an individual letter on school letterhead, a computer-generated report, or a specific form provided by the guarantor).

By providing notice of a change in student status as outlined in this subsection, participating schools help the lender promptly establish repayment terms with the borrower. This will help prevent FFELP loan defaults and assist in controlling the school's default rate.

Information Sharing with the Department, a Lender, or a Guarantor

A school (or its designated servicer) is required—upon request by the Department, a lender, or a guarantor—to promptly provide any information the school has regarding the last known address, full name, telephone number, enrollment information, employer, and employer address of a borrower who attends or has attended the school. The school should respond to such a request within 30 days.

If the school discovers that a student who is enrolled and who has received a Stafford or SLS loan has changed his or her permanent address, the school is required to notify the holder of the loan of the new address within 30 days, either directly or through the guarantor.

Schools should be aware that, along with other status-change reporting, the National Student Loan Data System (NSLDS) and the National Student Loan Clearinghouse are capable of reporting changes in an enrolled borrower's permanent address to lenders and guarantors. However, the reporting frequencies of both the NSLDS and the National Student Loan Clearinghouse may be unable to accommodate the federal 30-day time frame for reporting changes in an enrolled borrower's address.

Unless a school expects to report to either the NSLDS or the National Student Loan Clearinghouse within 30 days of discovering a change in an enrolled borrower's permanent address, the school should notify the holder of the loan directly or through the guarantor of changes in an enrolled borrower's permanent address.
[§668.24(f)(4); Appendix A of DCL 96-L-186/96-G-287]

4.8.C. National Student Loan Clearinghouse

The National Student Loan Clearinghouse is a nonprofit, industry-sponsored organization that accepts, processes, and shares student loan enrollment and deferment information with authorized program participants.

Participating schools report all of their enrolled students to the Clearinghouse—by electronic transmission, tape, or diskette. Participating guarantors send computer tapes listing all of their guaranteed borrowers to the Clearinghouse. The Clearinghouse then matches the guarantor data base against the school enrollment data base and reports to the guarantor the student's most current status—including the identification of each borrower who has withdrawn from school, transferred from one school to another, returned to school and is eligible for deferment, or continued in school and is eligible for a deferment extension. Guarantors then report status changes to lenders. Lenders and loan servicers that would rather request status information directly may become members of the Clearinghouse.

The Clearinghouse maintains historical information and audit trails on transactions. Participants may request records of enrollment status certifications made to or from the Clearinghouse at any time.

If a school reports enrollment status information to the Clearinghouse, the school may deliver to the Clearinghouse for completion any SSCR received from a guarantor that participates in the Clearinghouse.

▲ Schools may contact individual guarantors to determine whether each guarantor participates in the Clearinghouse. See section 1.5 for contact information.

Information on the National Student Loan Clearinghouse may be obtained by calling (703) 742-7791, or by writing the Clearinghouse at:

National Student Loan Clearinghouse
1050 Thomas Jefferson Street, NW
Washington, DC 20077-3437

4.9
Providing Information to Students

Federal regulations outline specific requirements for student counseling. Generally, this information is provided by a school's financial aid office.

A school must provide debt management counseling to each of its Stafford loan borrowers—individually or in groups—before the student's completion of study or at the time the student leaves the school. If the student withdraws without the school's knowledge, the school must attempt to provide information to the student in writing by sending it to the student's last known address.

The following information must be included in debt counseling:

- Average anticipated monthly payment amounts.
- A summary of available repayment options, including strategies for debt management designed to facilitate repayment.

For more information on the responsibilities of a financial aid office, the school may refer to 34 CFR 682.604 and 34 CFR 668.43, as well as chapters 3 and 10 of *The Federal Student Financial Aid Handbook.*

4.9.A.
Student Consumer Information

A school participating in any Title IV program must provide to all enrolled students—and to prospective students, upon request—consumer information concerning the school and any financial assistance available to students attending the school, along with the school's completion or graduation rate and its transfer-out rate. The school's written student consumer information must adhere to regulatory requirements, as outlined in Subpart D (Student Consumer Information Services) of the Student Assistance General Provisions. Schools should refer to 34 CFR 668.41 through 668.49. Schools also may wish to consult other Department of Education publications, such as the *Federal Student Financial Aid Handbook*, for more information on student consumer information requirements.
[§668.41(a)]

Student consumer information must be made available to all currently enrolled students and prospective students. Regulations define a prospective student as an individual who has contacted an eligible school to request information about admission to the school.
[§668.41(a) and (c)]

When a school participating in any Title IV program offers a potential student athlete athletically related student aid, the school must provide the potential student athlete—and his or her parents, high school coach, and guidance counselor—the information on completion and graduation rates, transfer-out rates, and other data produced in accordance with the regulations. The school also must submit the report produced to provide information to these students to the Department by July 1 of each year, beginning July 1, 1997. Schools should refer to 34 CFR 668.41(b) and 668.49 for information on disclosure requirements for student athletes.
[§668.41(b)]

A school must prepare or revise information for each award year in which it participates in any Title IV program. In developing student consumer information, schools new to Title IV programs may find it helpful to review other schools' catalogs. However, each school remains ultimately responsible for the accuracy and completeness of its student consumer information.
[§668.42]

Financial Assistance Information

A school must provide financial assistance information regarding its programs, including a description of all federal, state, local, private, and institutional aid programs. For each listed financial aid program, the school's student consumer information must include descriptions of:

- The procedures (including deadlines) and forms a student must use to apply for assistance.
- The requirements used in determining whether a student is eligible for aid.
- The criteria used by the school to select financial aid recipients from the group of eligible applicants.
- The criteria used in determining the amount of a student's award.
  [§668.43(b)]

The Student Guide, a free booklet published by the Department, provides schools with an excellent source of material for developing descriptions of Title IV programs. A school may obtain copies by calling (800) 4-FED-AID or by mailing a request to:

Federal Student Financial Aid Information Center
Office of Student Financial Assistance
P.O. Box 84
Washington, DC 20044

Student Rights and Responsibilities

A school's student consumer information must include a description of student rights and responsibilities specifically addressing financial assistance under the Title IV programs. This description must contain:

- The criteria for continued student eligibility under each program.
- The standards by which the school determines, for the purpose of receiving financial assistance, whether a student is making satisfactory academic progress and the procedures by which a student who has failed to maintain satisfactory academic progress can reestablish eligibility for assistance.
- Information on how and when a student will receive financial assistance payments.
- The terms of any loan received by a student as part of a financial assistance package and a sample loan repayment schedule. Loan terms that should be disclosed include the interest rate, the total amount that must be repaid, the requirements on when repayment must begin, and the length of time allotted for repayment. The necessity of repaying the loan should be emphasized.
- Provisions for cancellation, deferment, or forgiveness of the loan.
- The general conditions and terms applicable to any employment provided to a student as part of the student's financial assistance package (for students receiving aid under the Federal Work-Study Program).
  [§668.43]

To assist schools in meeting the student consumer information requirements, each common Stafford or PLUS application and promissory note and each MPN includes detailed information on the terms of the borrower's loan. By signing the common application and promissory note, or MPN, the borrower certifies that he or she has read the information and understands the terms of the loan, including the rights and responsibilities related to that loan. To ensure that this information is adequately communicated to the prospective student or borrower, the guarantor recommends that the information be summarized in the school's student consumer information.

Additional Student Consumer Information

A school must provide additional information to current and prospective students regarding the school and its administration and academic standards. Such information must address the following characteristics of the school:

- The cost of attending the school, including:
  - Tuition and fees charged to full-time and part-time students.
  - Estimated costs of necessary books and supplies.
  - Typical costs for room and board.
  - Transportation costs for students living on and off campus.
  - Any additional costs for a particular program.

- The school's policy on refunds to students who withdraw.

- The school's policy regarding refunds on Title IV program loans. The policy must clearly outline the calculations for determining the student's financial obligation to the school; the amount of unearned tuition, fees, and charges for room and board already paid to the school that must be returned to the student or borrower; and the amount of any aid the student or borrower is entitled to keep. The policy also must include an explanation of how refunds are applied to a student's account and how refunds will be distributed to the various sources of financial aid, as specified by federal regulations. For more information on school requirements for processing refunds on Stafford and PLUS loans, see section 4.7.
  [§668.22]

- The school's current degree programs and other educational and training programs.

- The school's instructional, laboratory, and other physical facilities that relate to academic programs.

- The school's faculty, including the names and qualifications of members.

- The names of the school's accrediting or licensing organizations and the procedures under which any current or prospective student may obtain or review—upon request—a copy of the documents describing the school's accreditation, approval, or licensing.

- Special facilities and services available to students who are physically challenged. This information may include detailed descriptions of all facilities (such as ramps and special parking arrangements) and services (such as special tutors, library books in Braille, and audio-visual materials available). If the school has chosen not to provide special facilities or services, the school may report that no facilities to accommodate students with special needs exist at the school.

- The titles of designated school personnel that are available to assist students and prospective students in obtaining consumer information about the school—with information on how and where those persons may be contacted.

- For schools with study-abroad programs, a statement to the effect that enrollment in the foreign school is equivalent to enrollment in the home school for purposes of establishing Title IV eligibility.

- The licensing or certification requirements of the state in which the school is located.

- For schools that use job placement statistics in recruiting students, the job placement rate for students scheduled for program completion in the most recent calendar year. For these purposes, any graduate for whom the school does not possess documented evidence of employment in the occupation for which the program was offered may not be considered as having obtained employment.

- The school's security policies and crime statistics.

- Any other information necessary to substantiate the truth of any claims made by the school relating to job placement or salary.
  [§668.44(a)]

Format and Documentation Requirements

The school's student consumer information must be disclosed to a student in a format that enables the student to read and sign the disclosure. A copy of the completed disclosure must be kept by the school in the student's file.
[§668.44(a)]

A school's student consumer information plays an essential role in ensuring that prospective students receive enough information about the school and its programs to make an informed decision about where the student will pursue postsecondary education. The guarantor, during any program review, will examine the school's written student consumer information for accuracy, completeness, and adherence to the requirements outlined in federal regulations.

4.9.B. Entrance Counseling

A school must conduct entrance counseling with each student who is obtaining his or her first Stafford loan for attendance at that school—unless the student previously received a Stafford, SLS, or Federal Direct Stafford loan for attendance at another school. Entrance counseling must be provided before the first disbursement of a loan is released, and may be conducted in person, by audiovisual presentation, or by computer-assisted technology—provided that an individual with Title IV expertise is available shortly after the counseling to answer questions. For a student enrolled in a correspondence or study-abroad program, the school must provide the required counseling through written materials by mail.

Entrance counseling should include:

- A thorough explanation of all sources of financial aid available to the student or to his or her parent(s).
- A description of the terms and conditions of each available type of aid.
- A discussion of the school's policy on the frequency of annual loan limits.
- A strong recommendation to the student to read carefully and retain all documentation related to each of his or her loans.
- For schools using the Master Promissory Note (MPN), an explanation of the MPN process, including the multi-year feature and borrower loan control points (e.g., notification or confirmation, cancellation or reduction of the loan amount, and revocation of the MPN). See subsection 2.2.A. for more information on using an MPN.
- A reminder to the student to keep the lender informed of changes to enrollment status and address information.
- A summary of the student's rights and responsibilities.
- An overview of repayment, deferment, forbearance, and cancellation options and conditions available to the student.
- Information on the consequences of borrowing several education loans and of delinquency and default.
- An emphasis on the student's obligation to repay a loan—even if the student fails to complete the program or the program fails to meet expectations.
- An explanation of loan sales and the servicing of loans.
- An explanation of how the school will determine whether the student is making satisfactory academic progress.
- A detailed disclosure of the school's refund policy.

For detailed information on entrance counseling, a school may consult 34 CFR 682.604(f). Information also is provided in chapters 3 and 10 of *The Federal Student Financial Aid Handbook*.
[DCL GEN-98-25; DCL GEN-99-9]

4.9.C. Exit Counseling

Whenever possible, a school must provide exit counseling shortly before any Stafford loan borrower ceases enrollment on at least a half-time basis. If a student withdraws or fails to attend his or her scheduled exit counseling session, the school must mail exit counseling information to the student within 30 days of learning that the student has withdrawn or failed to attend exit counseling. For a correspondence program, the school must provide written exit counseling materials by mail within 30 days after the borrower completes the program.

During the counseling session, the school must obtain the borrower's driver's license number (if any), and correct its records to reflect any changes in the borrower's name, address, social security number, and references. The school also should obtain the address at which the borrower expects to live permanently after leaving school; the name and address of the borrower's anticipated employer; and the address of the borrower's next of kin. The school must submit this information to the guarantor within 60 days.

Exit counseling should include:

- An emphasis on the importance of financial planning and debt management.
- A review of the student's rights and responsibilities.
- A thorough explanation of loan repayment obligations.
- Disclosure of the name and address of each of the borrower's lenders, and a reminder that the student is to keep each lender informed of any changes.
- A strong recommendation to the student to read carefully and retain all documentation related to each of his or her loans.
- A review of available repayment options.
- An overview of repayment, deferment, forbearance, and cancellation options available to the student.
- A warning about the consequences of delinquency and default.
- An emphasis on the student's obligation to repay his or her loan—even if the program is not completed or fails to meet the student's expectations.

To assist schools in meeting the preceding requirements, a guarantor may provide a borrower exit interview form.

For detailed information on exit counseling, a school may consult 34 CFR 682.604(g). Information also is provided in chapters 3 and 10 of *The Federal Student Financial Aid Handbook*.

4.10
Recordkeeping Requirements

Federal regulations mandate that a school retain complete and accurate records in a systematically organized manner. Records must be readily available for review by the Department or the Department's authorized representative at an institutional location designated by the Department or the Department's authorized representative.
[§668.24(d)(1) and (2)]

A discussion of the key records a school is required to maintain for the FFELP follows. Additional information on school recordkeeping requirements for all Title IV programs—including a comprehensive listing of required records—can be found in chapter 3 of *The Federal Student Financial Aid Handbook*. Schools must maintain any program record that documents compliance with Title IV program requirements.

Schools should consult state recordkeeping requirements to determine whether state requirements supersede these federal requirements.

Program Records

A school must maintain any application for FFELP funds and up-to-date records that document:

- The school's eligibility to participate in the FFELP.
- The eligibility of the school's educational programs for FFELP funds.
- The school's administration of the FFELP in accordance with all applicable requirements.
- The school's financial responsibility.
- Information included in any application for FFELP funds.
- The school's delivery of FFELP funds.
[§668.24(a)]

Fiscal Records

Fiscal records must be maintained in accordance with generally accepted accounting principles. Schools must maintain on a current basis:

- All financial records relating to each FFELP transaction.
- Separate general ledger control accounts and related subsidiary accounts that identify each FFELP transaction.
  [§668.24(b)]

Loan-Related Records

The records that a school must keep for each FFELP loan include, but are not limited to:

- A copy of the loan application—or application data, if submitted electronically to a lender or a guarantor—including the name of the borrower and, for PLUS loans, the name of the student on whose behalf the loan was made.
- The name and address of the lender.
- Documentation of each student or parent borrower's receipt of FFELP funds, including, but not limited to:
  - The loan amount, the payment period, and the period of enrollment for which the loan was intended.
  - Calculations used to determine the loan amount.
  - The date(s) and amount(s) of each delivery of loan proceeds by the school to the student or parent borrower.
  - The date and amount of any refund paid to or on behalf of the student and the method by which the refund was calculated.
  - The payment of any refund to a lender or the Department.
- The Student Aid Report (SAR) or the Institutional Student Information Record (ISIR).
- Documentation of each student or parent borrower's eligibility for FFELP funds, such as documentation of need, cost of attendance, verification, enrollment status, financial aid history, satisfactory progress, etc.
- The school's receipt date for each disbursement of the loan.
- For loans disbursed to the school by copayable check, the date the school endorsed each check.
- For loans disbursed by electronic funds transfer (EFT) or by master check, the student or parent borrower's authorization to the school to transfer the initial and subsequent disbursements of each FFELP loan to the student's school account.
- Any required reports or forms and any records needed to verify data reported in those reports or forms.
- Documentation supporting the school's calculation of its completion and graduation rates.
  [§668.23(h); §668.24(c) and (d)(3)(ii); §682.610; *The Federal Student Financial Aid Handbook*, chapter 3]

Retention Period

A school—and its successor owners, if applicable—must keep all required records relating to a student or parent borrower's eligibility for, and participation in, the FFELP for 3 years after the end of the award year *in which the student last attended the school*. In addition, a school must keep copies of all reports (such as its SSCRs) and forms used by the school to administer FFELP loans for 3 years after the end of the award year *in which those records were submitted*. Any records relating to a loan, claim, or expenditure questioned in an audit, program review, investigation, or other review must be retained until the later of the resolution of the question or the end of the retention period applicable to the record.

Schools are encouraged to keep records longer than the minimum 3-year period to aid in their defense of cohort default rate appeals, claims of false certification, or other borrower defenses.
[§668.24(e)(2) and (3)]

Media Formats

Records may be kept in hard copy or in other media formats (such as microform, computer file, CD-ROM, or optical disk). Except for the SAR and ISIR, all records must be retrievable in a coherent hard-copy format or in other media formats acceptable to the Department. The SAR must be maintained in either its original hard-copy format or in an imaged format. The ISIR, which is an electronic record, must be maintained in the same format in which it was received.

Any imaged media format must be capable of reproducing an accurate, legible, and complete copy in approximately the same size as the original document. If a document contains a signature, seal, certification, or any other validating mark, it must be maintained in original hard copy or in an imaged media format.
[§668.24(d)(3)]

Availability of Records

A school's (or its designated servicer's) records must be made available to the Department, an independent auditor, the Department's Inspector General, the Comptroller General of the United States, or the authorized representative of any of these entities, the school's accrediting agency, or a guarantor. The records may be used to assist any or all of these entities in program reviews, audits, or investigations or to assist in the resolution of issues and complaints from students, parents, or lenders. If a school closes, stops providing all educational programs, is suspended or terminated, or changes ownership, the school—or the school's new owners—must continue to keep the records required for the applicable 3-year period and must ensure that access to these records remains open to the Department or its authorized representative and the guarantor.
[§668.24(d)(4) and (f)]

4.11
Third-Party Servicers

A school that contracts with a separate party to administer any aspect of the school's responsibilities under the Act or federal regulations will be considered to have a third-party servicer. Computer providers, software providers, and employees of the school are not considered to be third-party servicers.

A school is jointly and severally liable for the actions of a third-party servicer with which it contracts. Any time a school enters into, or significantly modifies, a contract with a third-party servicer, the school must notify the Department. The Department may review any contract between a school and a third-party servicer.

A school may not contract with a third-party servicer that has one or more of the following characteristics:

- The servicer has been limited, suspended, or terminated by the Department within the preceding 5 years.
- The servicer has failed to submit required audit reports in a timely manner during the preceding 5 years.
- The servicer has paid liabilities that exceed 5% of the amount of Title IV funds that are administered by the third-party servicer, as a result of the two most recent Title IV audits.

Any contract between a school and third-party servicer must establish that the third-party servicer will:

- Comply with all requirements governing the administration of the Title IV programs.
- Refer to the Department any information indicating that the school may be engaged in fraud or other criminal misconduct in administering Title IV programs.
- Be jointly and severally liable with the school for the servicer's violations of program requirements.
- Return all Title IV funds and records used in administering the program if the servicer or school terminates the contract, goes out of business, or files for bankruptcy.

Federal regulations require a third-party servicer that contracts with a school to meet, where applicable, the financial responsibility standards listed in section 4.3.
[§668.15(b)]

4.12
Quality Assurance Program

The Department may select schools for voluntary participation in a Quality Assurance Program (QAP) that provides participating schools with an alternative management approach for the administration of Title IV aid. Participation in the QAP may permit a school to develop and implement its own comprehensive system to verify student financial aid application data, and may exempt the school from certain program and reporting requirements. The Department is given the authority to determine which schools are permitted to participate in the QAP—and to terminate schools in the QAP that do not continue to meet the requirements of the program. The Department will select schools based on the school's demonstrated institutional performance.

QAP is currently being tested at various sites.

Contact your guarantor or the Department for more information on this program.

4.13
Independent Audits

As a condition of participation in the FFELP and several other Title IV programs, each school and third-party servicer contracted by the school must undergo annual financial and compliance audits on a fiscal-year basis. These audits, required by federal law and regulations, must be conducted by an independent or government auditor that meets the qualifications and standards specified in the U.S. General Accounting Office's Government Auditing Standards and independence standards, including those related to organizational independence. Both the audited financial statement and the compliance audit must be submitted together to the Department within 6 months following the end of the school's or servicer's fiscal year end. To determine applicable audit requirements and submission periods, schools and school servicers should consult the *Audit Guide, Compliance Audits (Attestation Engagements) of Federal Student Financial Assistance Programs at Participating Institutions* and OMB Circulars A-128 and A-133. Copies of the *Audit Guide* may be obtained by calling the Department at 800-4-FED-AID. Copies of both OMB circulars may be obtained from the OMB's Publication Office at (202) 395-7332, or in an electronic format from the White House's Web site:

> *http://www.whitehouse.gov/WH/EOP/OMB/html/circular.html*

5 Borrower Eligibility and Loan Certification

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Chapter 5 describes borrower eligibility criteria for Federal Stafford and PLUS loans and school procedures and requirements for certifying an application and promissory note. Although Federal SLS loans are no longer made, some mention of these loans is included in this chapter for reference.

5.1 Applying for Stafford and PLUS Loans

Applying for a Stafford Loan Using the Common Stafford Application and Promissory Note

Schools may use the common Stafford application and promissory note for any loan application certified prior to July 1, 2000, for any period of enrollment beginning prior to July 1, 2000.

To apply for a Stafford loan using the common Stafford application and promissory note, a borrower may request an application and promissory note from the school, the lender, or the guarantor. Loan requests also may be initiated through a number of other application procedures. [§682.102]

The common Stafford application and promissory note provides the borrower with instructions for completing the form, important information regarding the borrower's rights and responsibilities, and an overview of the loan process. By signing the promissory note, the borrower certifies that he or she has read the information in the note, understands the terms and conditions of the loan, and promises to repay the loan.

The borrower must complete a common Stafford application and promissory note for each new loan received. To obtain additional loan funds within a single loan period, the borrower may request an increase to a current loan amount (see subsection 6.1.H.) or initiate a new loan application process. The borrower may also need to complete a new application and promissory note to increase his or her loan amount.

After completing the borrower section of the application and promissory note, the borrower submits the loan application to the school, the lender, or the guarantor, depending on the processing options established at the school. The financial aid administrator determines the borrower's eligibility for a Stafford loan according to federal regulations, guarantor policies, and the school's published standards.

Applying for a Stafford Loan Using the Master Promissory Note (MPN)

The Master Promissory Note (MPN) may be used for any loan certified by a school for a loan period that begins on or after July 1, 1999, and will be the only approved Stafford loan promissory note for any period of enrollment beginning on or after July 1, 2000, for any loan certified on or after July 1, 2000, regardless of the loan period beginning date.

The MPN is only a promissory note and does not serve as a borrower application. The borrower applies for a Stafford loan either by using the Free Application for Federal Student Aid (FAFSA) or an alternative paper or electronic school financial aid application process.

The borrower must sign an MPN prior to the disbursement and delivery of any loan funds. Borrowers attending schools not using or not authorized to use the multi-year feature of the MPN must complete a new note for each new loan. Borrowers attending schools that use the multi-year feature of the MPN complete an MPN only once at the time they first borrow, unless a new MPN is required (see subsection 6.1.A.).

The MPN provides the borrower with instructions for completing the form, important information regarding the borrower's rights and responsibilities, and an overview of the loan process. By signing the promissory note, the borrower certifies that he or she has read the information in the note, understands the terms and conditions of the loan, and promises to repay the loan.

After completing the MPN, the borrower submits the MPN to the school, the lender, or the guarantor, depending on the processing options established at the school. The financial aid administrator determines the borrower's eligibility, according to federal regulations, guarantor policies, and the school's published standards.
[HEA §432(m)(1)(C); DCL GEN-98-25; DCL GEN-99-9]

Applying for a PLUS Loan Using the Common PLUS Application and Promissory Note

For PLUS loans, a parent borrower obtains a PLUS application and promissory note from the school, the lender, or the guarantor. The parent and student must each complete the required sections of the application and promissory note. The common PLUS application and promissory note provides the parent borrower and student with instructions for completing the form, important information regarding the borrower's rights and responsibilities, and an overview of the loan process. By signing the promissory note, the parent borrower certifies that he or she has read the information in the note, understands the terms and conditions of the loan, and promises to repay the loan.

The parent and student must complete a common PLUS application and promissory note for each new loan received. To obtain additional funds within a single loan period, the borrower may request an increase to a current loan amount (see subsection 6.1.H.) or initiate a new loan application process. The borrower and student may need to complete a new application and promissory note to increase the loan amount.

After the borrower and student sections of the application and promissory note are completed, the borrower submits the loan application to the school, the lender, or the guarantor, depending on the processing options established at the school. The financial aid administrator determines the parent's and student's eligibility and certifies the PLUS loan amount according to federal regulations, guarantor policies, and the school's published standards. Parent borrowers also must be determined creditworthy to be eligible for a PLUS loan.

For a more detailed description of the PLUS loan application process and the distinction between using either the common Stafford application and promissory note or the MPN, see subsection 2.2.A.

5.2 Eligibility Requirements for Stafford and PLUS Loans

A school may certify a Stafford loan only if the student borrower meets the eligibility criteria outlined in the following subsections 5.2.A., 5.2.B., 5.2.C., and 5.2.D.

A school may certify a PLUS loan only if both the parent borrower and the student for whom the loan is being obtained meet the eligibility criteria outlined in the following subsection 5.2.A. In addition, the student must meet the eligibility criteria outlined in subsection 5.2.B.

When a lender reviews loan information to determine whether a borrower or student meets eligibility requirements, the lender generally will rely in good faith on the information provided by the borrower, student, and school. In most cases, a lender will be required to verify loan information independently only if it has reason to believe that the information reported is incorrect (for example, the borrower has failed to report a prior education loan default). For more information on the lender's responsibilities in originating a Stafford or PLUS loan, see subsection 6.1.A.
[§682.206(c)]

Department Conducts Data Matches to Determine Student Eligibility

The Department assists schools in determining a student's eligibility by conducting federal data matches of the citizenship, social security number, student financial aid overpayment or default, and selective service information that the student reports or certifies on the FAFSA. The results of the data matches with the Immigration and Naturalization Service, Social Security Administration, National Student Loan Data System, and Selective Service are reported to the school and the student. For more information about confirming a student's selective service registration, citizenship status, student financial aid overpayment or default status, or social security number, see subsections 5.2.B., 5.2.D., 5.2.E., and 5.2.M. Schools may also obtain more information about the Department's data matches from *The Federal Student Financial Aid Handbook* (see chapter 2).

The Anti-Drug Abuse Act of 1988 gives courts the authority to suspend eligibility for federal student financial aid when sentencing an individual convicted of possession or distribution of a controlled substance. Any student who applies for federal student financial aid will receive the following warning on his or her SAR: “As is more fully set forth in §5301 of the Anti-Drug Abuse Act of 1988, if you are convicted of drug distribution or possession, your eligibility for Title IV student financial aid is subject to suspension or termination.” A student whose financial aid is denied because of a drug conviction will be placed on the Department’s Drug Abuse Hold File at the direction of the Department of Justice. The student will receive a SAR with no calculated EFC and a comment instructing him or her to contact the Department of Education if the student wishes to contest the finding.
[§668.33; §668.36; §668.37]

5.2.A.
Borrower and Student Eligibility Requirements

Each student borrower seeking a Stafford loan, each parent borrower seeking a PLUS loan, and each student for whom a PLUS loan is being obtained must meet the following eligibility requirements:

- The individual must be a U.S. citizen or national, U.S. permanent resident, or eligible noncitizen, as applicable (see subsection 5.2.D.).

- The individual must not be in default on any federal education loan (see subsection 5.2.E. for acceptable resolutions).

- The individual must fulfill additional requirements imposed by the guarantor of a loan for which the principal and interest have been discharged or written off (see subsection 5.2.E.).

- The individual must not have borrowed in excess of any annual or aggregate Federal Stafford loan limit (see section 5.7 and subsection 6.1.H.).

- The individual must not be liable for an overpayment nor have exceeded annual or aggregate limits imposed on any other Title IV program (see subsection 5.2.E.).

- The individual must provide his or her valid social security number (see subsection 5.2.M.).

- The individual must meet the guarantor’s requirements with respect to state of residence or regional service area.

- The individual must not have been determined ineligible—solely due to the individual’s error or as a result of providing false or misleading information—for a FFELP loan that has already been obtained (see subsection 7.12.A.). The individual is entitled to receive an additional Stafford or PLUS loan only if he or she repays in full any ineligible loan or ineligible portion of a loan.

- Each student must certify, as part of the Free Application for Federal Student Aid (FAFSA) filed with the Department, a statement of educational purpose.
  [HEA 432(m)(1)(C); 484(a)(4)]

- Each PLUS loan borrower must certify, as part of the application and promissory note filed with the school or lender, a statement of educational purpose.
  [§668.32(h); §682.201]

Some guarantors have additional eligibility requirements for borrowers and students. These requirements are noted in appendix C.

5.2.B.
Student Eligibility Requirements

In addition to meeting the requirements of subsection 5.2.A., each student who is seeking a Stafford loan—or on whose behalf a PLUS loan is being sought—must meet the following eligibility requirements:

- The student must not be incarcerated at the time funds are disbursed or delivered (see appendix G for definition of "incarcerated").

- The student, if currently enrolled, must be maintaining satisfactory academic progress, as determined by the school according to federal regulations and the school's policy.

- The student must have at least a high school diploma, the recognized equivalent of a high school diploma (see subsection 5.2.G.), or meet one of the following standards:

  - The student must *(a)* be above the age of compulsory school attendance in the state in which the school is located and *(b)* pass an independently administered ability-to-benefit test that has been approved by the Department (see subsection 5.2.H.).

  - The student must have completed a secondary school education in a home school setting that is treated as a home or private school under applicable state law.

- Unless exempt, a male student must register with the Selective Service. When a male student submits a FAFSA, the Department will conduct a data match with the Selective Service to verify the student's registration status. The Department will notify the student and the school of the results of the data match. If the data match fails to confirm the male student's registration, the school must allow the student at least 30 days from the date the school was notified of the results of the data match or until the end of the award year, whichever is later, to submit evidence to the school that verifies either *(a)* that he is registered with the Selective Service or *(b)* that there is a valid reason why he is not required to be registered with the Selective Service. If a student's response to a failed data match is received by the school after the requested loan's period of enrollment, the school would be unable to certify the loan—even if the verification documentation was received within 30 days. For more information on Selective Service registration requirements, see *The Federal Student Financial Aid Handbook* and 34 CFR 668.37.

  A female student is exempt from the Selective Service registration requirement, and is not subject to the corresponding data match.

- The student must not have fraudulently borrowed a loan, provided information that caused his or her loan to exceed applicable annual loan limits during an academic year, nor knowingly exceeded an aggregate loan limit for the FFELP, FDLP, or Federal Perkins Loan Program. If the school determines that the student inadvertently violated the annual or aggregate loan limits, the school must give the student an opportunity to repay the excess amount before making a final determination on the student's eligibility for additional Title IV assistance. The school may not, under any circumstances, certify additional funds for a student who has exceeded applicable annual or aggregate loan limits.

- The student must meet other applicable provisions of this chapter.
  [§668 subpart C; §682.201]

5.2.C.
Student Enrollment Requirements

Each eligible student who is seeking a Stafford loan—or on whose behalf a PLUS loan is being sought—must meet the following enrollment requirements:

- The student must not be enrolled in either an elementary or secondary school.

- The student must be enrolled or accepted for enrollment as a regular student in one of the following:

  - An eligible degree or certificate program on at least a half-time basis at a participating school approved by the Department and the guarantor (except as noted below), or the student's coursework is partially or totally offered through telecommunications subject to the limitations described in subsection 5.2.I.

  - A study-abroad program that is approved for credit by the participating school at which the student is enrolled, whether or not the study-abroad program is a required part of the student's degree program (see subsection 5.2.K.).

A student who has previously obtained a bachelor's or professional degree is eligible for additional loan assistance, provided he or she meets all applicable eligibility criteria. [§668.32; §682.204(b)]

There are two exceptions to the FFELP eligibility requirement that a student be enrolled or accepted for enrollment as a regular student in a degree or certificate program:

- *Preparatory Coursework*
  A student who is not enrolled in a degree or certificate program is eligible for Stafford or PLUS loans for a period of up to one year if the student is taking preparatory courses necessary for his or her enrollment in an eligible program. The courses must be part of an eligible program otherwise offered by the school, although the student does not have to be enrolled in that program. For example, a student who has already received a bachelor's degree might need an additional 12 hours of specialized undergraduate coursework in order to enroll in a graduate program. If a student is enrolled at least half time in these prerequisite courses and the courses are part of an eligible program, the student is eligible for loans for one period of 12 consecutive months, beginning on the first day of the loan period for which the student is enrolled.

- *Teacher Certification or Recertification*
  A student is exempt from the degree or certificate program requirement if he or she is enrolled at least half time in a required teacher-certification program, even though the teacher-certification program does not lead to a degree or certificate awarded by the school (for example, the certificate may instead be granted by the state). The program must be required for elementary or secondary teacher certification or recertification in the state where the student plans to teach or in the state where the student is completing the program. This exception is not intended to cover optional courses that the student elects to take for professional recognition or advancement, nor does it cover courses that the school recommends but that are not required for certification or recertification. The school should document that the courses are required by the state for teacher certification. A student who is enrolled in a teacher-certification or recertification program is considered a fifth-year undergraduate student (see section 5.7 for applicable loan limits). [§668.32; HEA 484(b)(4); *The Federal Student Financial Aid Handbook,* chapter 2]

5.2.D. Determining Citizenship or Eligible Noncitizen Status

Generally, each eligible borrower and student must be a U.S. citizen or national, U.S. permanent resident, or an eligible noncitizen. The Department will verify the student's social security number and alien registration number provided on the Free Application for Federal Student Aid (FAFSA) with the relevant federal agencies.

U.S. Citizens

If a student indicates on the FAFSA that he or she is a U.S. citizen, the Department will verify the student's citizenship through a data match with the SSA. If the SSA confirms the student's citizenship, the Department will report that confirmation to the school and to the student. If the Department is unable to verify a student's citizenship with the SSA, the student must verify U.S. citizenship by submitting documentation to the school. The school must give the student at least 30 days' notice to produce evidence of U.S. citizenship before denying Title IV assistance to a student for failure to establish citizenship.

If the status of a student or parent borrower as a U.S. citizen or a U.S. national must be documented, the following are permissible forms of certification:

- A copy of the birth certificate showing that the student or parent borrower was born in the United States.

- A Certificate of Citizenship (N-600) from the INS, which must include at least the student or parent borrower's name and application number, the certificate number (found in the upper right-hand corner), and the date the certificate was issued.

- A Certificate of Naturalization from the INS, which must contain at least the student or parent borrower's name and petition number, the certificate number (found in the upper right-hand corner), the INS A-Number, the name of the court that granted the naturalization, and the date of naturalization.

- A Report of Birth Abroad of a Citizen of the United States (FS-240), Certificate of Birth—Foreign Service (FS-545), Certificate of Birth (DS-1350), or Freedom of Information Act Form (INS Form G-639). The first three forms are generated by the State Department and include an embossed seal with the words "United States of America" and "State Department."

- A U.S. passport (current or expired).

If the student or parent borrower submits a citizenship or naturalization certificate as documentation of his or her citizenship status, the school must place a copy of the form in the student's file, demonstrating that proof of citizenship was obtained (see *The Federal Student Financial Aid Handbook*, chapter 2).

Eligible Noncitizens

A noncitizen is considered eligible for Stafford or PLUS loans if he or she meets all other applicable eligibility criteria and is:

- A U.S. permanent resident alien with an Alien Registration Receipt Card (Form I-151 or I-551).

- A refugee with a Departure Record (I-94) from the U.S. Immigration and Naturalization Service (INS) showing one of the following designations (indicating that the refugee is in the United States for other than a temporary purpose):

  - Refugee
  - Asylum Granted
  - Alien paroled into the U.S. for at least one year.
  - Alien granted a stay of deportation [pursuant to 8 U.S.C. section 1253(h)] due to fear of persecution on account of race, religion, or political opinion.
  - Conditional Entrant (valid if I-94 was issued before April 1, 1980).

To establish the eligibility of a noncitizen, a school must perform a data match with another agency, such as the INS. This process is also known as primary confirmation. If a student or parent borrower's eligible noncitizen status is not verified by this procedure, the school must transmit copies of the student's or parent borrower's documentation of immigration status to the INS. This process constitutes secondary confirmation. For purposes of secondary confirmation, a school may *not* require a student or parent borrower to produce evidence from the INS that he or she is a permanent resident of the U.S. or is in the U.S. for other than a temporary purpose with the intention of becoming a citizen or permanent resident if both of the following conditions are applicable:

- The school determined the student or parent borrower to be an eligible noncitizen using secondary confirmation of documents provided in a previous award year, and those documents have not expired.

- The school does not have conflicting information or reason to believe that the student or parent borrower's claim of citizenship or immigration status is incorrect.

A school may not deny eligibility to an applicant based on immigration status while awaiting primary confirmation from the INS. However, if a loan is guaranteed, the school must delay the delivery of Title IV assistance to the applicant until primary confirmation is received.

A school may deliver funds to an otherwise eligible student pending INS response to secondary confirmation if at least 15 business days have elapsed since the school submitted the documentation to the INS. Schools are reminded that they must reconcile any other inconsistency in data before releasing FFELP funds.

Citizens and eligible noncitizens may be eligible for FFELP funds at participating foreign schools. Citizens of any one of the Freely Associated States (i.e., the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau) are not eligible for FFELP funds at any participating school, but may be eligible for other types of Title IV aid.

Documentation Requirements

The school must retain copies of documentation provided by an eligible noncitizen. The Alien Registration Receipt Card (Form I-551 or I-151), Departure Record (I-94), U.S. passport, or other documentation provided as proof of the student's or borrower's status may be photocopied (front and back) and placed in the student's file. Endorsements on the I-94 or U.S. passport identifying the individual's status may be stamped in rust-colored ink on the original document. If such endorsements do not photocopy well, they should be hand copied exactly as they appear on the original I-94 or U.S. passport. As confirmation of the hand-copied endorsement, both the student and a school official should initial the endorsement.
[DCL GEN-98-2]

For More Information

Further information on citizenship status and documentation may be found in the most recent publication of *The Federal Student Financial Aid Handbook*. Schools are cautioned against attempting to establish citizenship status without reviewing this source.
[HEA 484(g) and (h); §668.33; §668.130 through 133; DCL GEN-92-21 (section XXIX, subsection k)]

5.2.E.
Prior Overpayment, Default, Discharge, or Write-Off

By certifying the Stafford or PLUS loan, a school certifies that the student borrower—or the parent and student, in the case of a PLUS loan—does not, to its knowledge, owe a refund on an overpayment in any Title IV program.
A school must not certify an application for a borrower who owes such a refund unless the school has made an adjustment to correct the overpayment in the same award year, or the individual and the school have made satisfactory arrangements for the repayment of the overpayment.

Prior Default

As indicated in subsection 5.2.A., a prospective Stafford or PLUS loan borrower cannot receive a loan if he or she, or the student for whom a PLUS loan is being sought, defaulted on any Title IV loan (a FFELP loan, FDLP loan, Federal Perkins loan, or Federal Insured Student Loan) obtained for attendance at any school.

In determining whether the student or parent borrower has ever defaulted on any Title IV loan, a school may rely on the information provided by the student or parent borrower during the application process and on NSLDS financial aid history information (or transcripts from other schools in the case of a midyear transfer student), unless the school receives conflicting information. The school must reconcile all conflicting information before delivering any funds.
[DCL GEN-96-13]

If a student or parent borrower is seeking a new loan and has previously defaulted on any Title IV loan, the guarantor will guarantee a new loan only if each defaulted loan has been resolved in one of the following ways:

- The defaulted loan has been paid in full.

- The defaulted loan has been discharged or determined to be dischargeable in a bankruptcy action.

- The borrower's eligibility for Title IV funds has been reinstated as a result of the borrower's making six voluntary, consecutive, on-time, full monthly payments of a reasonable and affordable amount on each loan that defaulted. A borrower may regain eligibility for Title IV funds under reinstatement provisions only once. After a borrower's Title IV eligibility is reinstated, the borrower must continue to maintain satisfactory payment arrangements on each loan that defaulted in order to continue to be eligible for additional Title IV funds. A borrower who makes satisfactory repayment arrangements on a defaulted loan will regain loan eligibility for the Academic Year in which the borrower satisfies the payment requirements to regain Title IV eligibility. Accordingly, the financial aid administrator may certify a loan for the entire academic year, as long as the student is otherwise eligible. For more information on reinstatement of eligibility, see section 8.9.

- The defaulted loan has been rehabilitated as a result of the borrower's making 12 voluntary, consecutive, on-time, full monthly payments of a reasonable and affordable amount, and each loan has been purchased by a lender. For more information on loan rehabilitation, see section 8.10.

- The defaulted loan has been discharged because the student or parent borrower was unable to complete a program of study due to the school's closing.

- The defaulted loan has been discharged by the Department because the borrower's eligibility for the loan was falsely certified by the school.

- The borrower has made satisfactory repayment arrangements on the defaulted loan and consolidated that loan, or the borrower has agreed to repay a Consolidation loan under an income-sensitive repayment schedule. For more information on consolidating defaulted loans, see section 9.2.

Some guarantors have additional eligibility requirements and restrictions on Consolidation loans. These requirements are noted in appendix C.

A borrower may have loans with more than one guarantor or loans guaranteed under a program other than the one under which the borrower is currently seeking a loan. Regardless of the guarantors or programs under which the borrower defaulted, all defaults must be resolved before a new loan can be guaranteed.

If the defaulted loan is with a guarantor other than the one to which the borrower is submitting a new loan request, the borrower must forward documentation that the default has been resolved (such as, a copy of the original promissory note stamped "paid in full" or a letter from the prior guarantor stating that the borrower's eligibility for Title IV funds has been reinstated). The new guarantor will review the loan request and any attachments to determine the borrower's eligibility for a new loan.
[HEA 428F(b); §668.35; §682.200; §682.401(b)(4); DCL 96-L-186/96-G-287, Q&A #6]

▲ Schools may contact individual guarantors for more information on documenting and submitting information regarding a prior loan default. See section 1.5 for contact information.

Prior Loan Discharged Due to Total and Permanent Disability

A borrower who has had a prior loan discharged due to total and permanent disability is not required to reaffirm the discharged obligation to be eligible to obtain a new loan. However, to be eligible to receive a new loan, the borrower must meet the following requirements:

- Obtain a physician's statement certifying that the borrower may now engage in "substantial gainful activity."

- Sign a statement acknowledging that any new loan the borrower receives may not be discharged due to the same or any disability existing at the time the new loan is made, unless the disabling condition substantially deteriorates to the extent that the definition of total and permanent disability is met.
  [§682.201(a)(5); §682.402(c)]

For those purposes "substantial gainful activity" may be defined as the ability to work and earn money or to attend school. (See definition of "totally and permanently disabled.")

Prior Loan Written Off

A borrower who has had a FFELP loan partially or totally written off (the lender or guarantor has stopped all collection activity on the written-off portion) must reaffirm the written-off portion of the loan before a new loan may be approved. Reaffirmation is the borrower's legally binding acknowledgment of a loan that has previously been totally or partially written off. By this acknowledgment of the loan, the borrower agrees to the reinstatement of his or her repayment obligation on the previous loan. The reaffirmation may include but is not limited to the following:

- Making a payment on the loan.

- Signing a new repayment agreement or promissory note that includes the original terms and conditions applicable to the loan being reaffirmed.

The reaffirmed amount must include all principal and interest accrued on the written-off portion of the loan through the date on which the borrower reaffirms his or her commitment to repay the loan. It may also include collection costs, late charges, and legal costs.
Any outstanding charges, such as interest, collection costs, late charges, or legal costs, may be capitalized as of the date the loan is reaffirmed.
[§682.201(a)(4) and (b)(1)(vi); DCL 96-L-186/96-G-287, Q&A #4, #7, #8, and #11]

Previous Financial Aid Data Required for Transfer Students

For each transfer student applying for Title IV aid, a school must obtain and evaluate Financial Aid Transcript (FAT) data from the National Student Loan Data System (NSLDS) for each school the student attended previously. The NSLDS information will assist the school in making the eligibility determinations described in this section. A school may sometimes find it necessary to request a paper FAT from a school the student attended previously (e.g., for a midyear transfer student). A school is required to complete and return paper FATs when requested to do so by another school.

A school may certify or decline to certify a Stafford or PLUS loan, but may not release the proceeds of any Stafford or PLUS loan before receiving and evaluating data from NSLDS or a paper FAT, as applicable. See subsection 6.3.E. for exceptions to this rule.
[§668.19; DCL GEN-96-13; *The Federal Student Financial Aid Handbook*, chapter 2]

5.2.F.
Effect of Bankruptcy on Eligibility

The Bankruptcy Reform Act of 1994 prevents a school or lender from denying a federal loan or grant to an applicant solely because he or she has filed a bankruptcy petition.

Loan Certification and Professional Judgment

If the school has information about a previous or pending bankruptcy action by a Stafford or PLUS loan applicant, the school may not refuse to certify the loan if the applicant is otherwise eligible. Also, the school may not, solely because of the bankruptcy action, certify a loan for an amount that is less than the amount for which the applicant would otherwise be eligible. The financial aid administrator may use professional judgment to refuse to certify a loan, or to lower the loan amount if circumstances other than the bankruptcy exist that would cause the school to reduce the borrower's loan amount.

Reaffirmation

Stafford and PLUS loan applicants who have had education loans previously discharged in bankruptcy are not required to reaffirm those loans to regain Title IV eligibility. If a borrower defaulted before the bankruptcy action was filed, and the debt has been discharged or has been determined to be dischargeable, the borrower is eligible for additional funds without reinstatement and without reaffirming the debt.

Credit Evaluation and Loan Approval

In the PLUS loan application process, the lender may consider loans discharged in bankruptcy to be adverse credit; however, if the lender has information on a previous or pending bankruptcy action by a PLUS loan applicant, the lender may not deny the loan solely based on that action. The lender may deny the loan only if conditions other than the bankruptcy exist that would cause the lender to deny the loan.
[§682.201(b)(1)(vii); DCL GEN-95-40]

If the lender permits a PLUS loan applicant with adverse credit to obtain an endorser, the lender may consider an endorser's bankruptcy to be adverse credit and may deny the loan on that basis.

The lender may make a loan to a PLUS loan applicant that is found to have adverse credit only if the lender documents the exceptional circumstances under which the adverse credit was considered immaterial.

For more information on PLUS loan credit evaluations, see section 5.4.

The lender is not prohibited from imposing creditworthiness standards on a Stafford loan applicant. However, the lender may not deny a Stafford loan to an applicant solely on the basis of a bankruptcy discharge.

EFFECT OF TITLE IV LOAN STATUS ON STUDENT AID ELIGIBILITY

Loan Status	Eligible for FFELP and Federal Perkins loans	Eligible for Federal Pell, SEOG, FWS, and SSIG
Defaulted	No	No
Written off after default	Yes[1]	Yes[1]
Canceled due to total and permanent disability after default	Yes[2]	Yes
Paid in full after default	Yes	Yes
Satisfactory repayment arrangements made after default	Yes	Yes
Compromised after default	Yes	Yes
Discharged by bankruptcy or determined to be dischargeable in bankruptcy	Yes	Yes

[1] To be eligible, the applicant must *(a)* repay each written-off loan in full or *(b)* reaffirm each Title IV loan obligation with the holder of the note that was written off and make satisfactory repayment arrangements as part of the reaffirmation (for any loan in default before the write-off).

[2] To be eligible, the applicant must *(a)* obtain a physician's statement certifying that the borrower may now engage in substantial gainful activity and *(b)* sign a statement acknowledging that any new loan the borrower receives may not be discharged due to the same or any disability existing at the time the loan is made, unless the disabling condition substantially deteriorates to the extent that the definition of total and permanent disability is met.

5.2.G. Recognized Equivalent of a High School Diploma

A GED—or a state certificate issued after a student passes an approved examination that the state recognizes as an equivalent to the GED—may be considered the equivalent of a high school diploma for establishing Title IV eligibility.

A school may admit a limited number of students without high school diplomas or equivalent certificates who have excelled academically in high school and met the school's admissions standards. If such a student completes a program of at least two years that is acceptable for full credit toward a bachelor's degree, the academic transcript for that program would be considered the equivalent of a high school diploma.

5.2.H. Ability-to-Benefit Provisions

To receive Title IV assistance, a student without a high school diploma or its equivalent who is admitted on an ability-to-benefit (ATB) basis must meet one of the following requirements:

- The student must take—and achieve at least a passing score as specified by the Department of Education—an independently administered test that has been approved by the Department to establish (according to the Department's criteria) whether the student has the ability to benefit from the education or training being offered. The independent administrator for the ATB test must be an individual or organization who has been certified by the test publisher and has no fiscal interest in the school.

- The student obtains a passing score on a Department-approved state test or assessment.

- The student must be enrolled in an eligible school that participates in a state-approved testing process that is approved by the Department.

If a student has taken an approved, properly administered ATB test during the 12-month period before receiving the Title IV aid and has demonstrated appropriate aptitude, the school may accept the official notification of the results of that test as documentation of the student's ability to benefit. [§668.32(e); §668.141(a); §682.201(a)(6)]

If no test can be approved for students with disabilities or for students for whom English is not their native language or who are not fluent in English because a test is not reasonably available, the Department considers the following tests to be approved tests for purposes of assessing those students' ability to benefit:

- For the purpose of testing students with disabilities, any modified test or testing procedure or instrument that has been developed for the purpose of evaluating the ability of disabled students to benefit from postsecondary education. The test must measure both basic verbal and quantitative skills at the secondary school level.

- For the purpose of testing students for whom English is not their native language or who are not fluent in English, any test in the student's native language or a language in which the student is fluent, provided the Department has not approved another test in that language and the test was not previously rejected from the approval process by the Department. The test must measure both basic verbal and quantitative skills at the secondary school level.

The passing scores recommended by the test developer are considered passing scores by the Department provided:

- For students with disabilities, the test administrator uses the procedures or instruments for which the test was designed, and maintains documentation of the procedures and instruments used in the testing and of the scores and scoring techniques.

- For students for whom English is not their native language or who are not fluent in English, the passing scores and the methods for determining those scores are fully documented.

A student should not be considered to have an ability to benefit if, at the time of loan certification, the student would not meet the requirements for employment in the student's state of residency in the occupation for which the student is training. The disqualifying factor may be a physical or mental condition, age, criminal record, or any other reason accepted by the Department. The school will not be held responsible for improper certification if it could not reasonably be expected to be aware of the student's disqualifying condition.
[§682.402(e)(13)]

Regulations stipulate the instances in which a school will be assessed a liability based on administration of the ability-to-benefit provisions. These instances are limited to:

- Funds disbursed to students whose ability to benefit from the course was determined in a test that was provided by a test administrator that was not independent of the school at the time the test was given.
- Funds disbursed to students for whom the ATB testing process was compromised by the school in any way.
- Funds disbursed to students for whom the school is unable to document that the students received passing scores on an approved test.
  [§668.154]

5.2.I.
Use of Telecommunications and Correspondence in Programs of Study

A student's enrollment in correspondence courses can affect his or her eligibility for Stafford loans and a parent's eligibility for PLUS loans. A student enrolled in coursework, offered in part or totally through telecommunications by a school, will be considered to be enrolled in correspondence courses *unless* all of the following criteria are met:

- The school offers less than 50% of all courses by telecommunications or correspondence, and the student's coursework is part of a 1-year or longer program leading to a recognized certificate or part of a recognized associate, baccalaureate, or graduate degree program.
- The school offers recognized associate, baccalaureate, or graduate degrees for 50% or more of its programs.
- The school is not an institution or school described in section 521(c)(4)(C) of the Carl D. Perkins Vocational and Applied Technology Education Act.

The financial aid administrator may exercise professional judgment to adjust the cost of attendance for students enrolled in telecommunications courses if enrollment in those courses materially affects the overall cost of participating in the program (see subsection 5.7.E.).

For these purposes, telecommunications is defined as the use of television, audio, or computer transmission—including open broadcast, closed circuit, cable, microwave, satellite, audio conferencing, computer conferencing, or video cassettes or discs.
[§668.38; HEA 484(l); DCL GEN 92-21]

5.2.J.
Study at Participating Foreign Schools

Eligible students and parents of dependent students may borrow Stafford and PLUS loans for attendance at foreign schools, provided the student—or, in the case of a PLUS loan, both the parent and the dependent student—is any one of the following:

- A U.S. citizen or national.
- A permanent resident of the United States.
- An eligible noncitizen.
  [§668.33]

Schools located in Canada and Mexico are considered foreign schools for purposes of establishing eligibility for Stafford and PLUS loans.

5.2.K.
Study-Abroad Programs

A student who is enrolled or accepted for enrollment in a study-abroad program that is approved by the home school at which the student is enrolled may be determined eligible to receive Stafford loan proceeds and the parent of the student may be determined eligible to receive PLUS loan proceeds—even if the study-abroad program is not required for the student's degree or certificate.
[HEA 484(o); §668.39; DCL GEN 92-21]

5.2.L. Ineligibility of Medical Interns and Residents

A student may not receive a Stafford loan while serving in a medical internship or residency program required of doctors of medicine, osteopathy, and optometry. A parent may not receive a PLUS loan on behalf of a student serving in such a medical internship or residency program. Students who are serving in an internship as part of any other degree program (e.g., a dental or veterinary internship) are considered eligible students for purposes of Stafford loans and PLUS loans, as applicable.
[HEA 428(b)(1)(M); §682.201(a)(7); DCL GEN-90-33, Q&A #16]

5.2.M. Social Security Number Data Match

When a student submits a FAFSA, the Department of Education will conduct a data match with the Social Security Administration to verify the student's social security number. If the Social Security Administration confirms that social security number, the Department will notify the school and the student. If the data match fails to confirm the student's social security number, or if the school has reason to believe that the verified social security number is inaccurate, the school must give the student at least 30 days from the date the school is notified of the results of the data match, or until the end of the award year, whichever is later, to submit evidence to the school that verifies the accuracy of the social security number.

A school may neither deny, reduce, delay, nor terminate a determination of a student's eligibility for assistance under the Title IV programs if verification of the student's social security number is pending. The school may not release any Title IV program funds to a student until the school is satisfied that the student's reported social security number is accurate. The school must notify the Department of the student's accurate social security number if the student demonstrates the accuracy of a number other than the number that the student included on the FAFSA.

If the social security number has not been verified, and a FFELP loan has been guaranteed for the student, the school must instruct the lender and guarantor to cease further disbursements of the loan until the Department or the school determines that the social security number provided by the student is correct. If the student fails to verify the social security number within the preceding time frame, the school must return any FFELP loan disbursements for the student to the lender.
[§668.36]

5.3 Eligibility Requirements Specific to Stafford Loans

Before certifying a Stafford loan for an undergraduate student, a school that participates in the Federal Pell Grant Program must determine the student's eligibility for a Pell Grant. If the student is eligible for a Pell Grant, the amount that he or she is eligible to receive must be included in the student's estimated financial assistance (EFA) when determining the student's Stafford loan eligibility. If the student applies for a Pell Grant and receives notification that the funds will not be available, the school may disregard the student's Pell Grant eligibility in assessing the student's financial need.

Before certifying an unsubsidized Stafford loan, a school must determine a student's eligibility for a subsidized Stafford loan. If the student is eligible for a subsidized Stafford loan in an amount that exceeds $200, the school must certify an application for a subsidized Stafford loan prior to certifying an unsubsidized Stafford loan. If the student is eligible for a subsidized Stafford loan in an amount of $200 or less, the school is not required to certify an application for the subsidized Stafford loan prior to certifying the unsubsidized Stafford loan. In such cases, the school may include the amount of subsidized Stafford eligibility in the unsubsidized Stafford loan. Although the $200 tolerance does not exist for an unsubsidized Stafford loan, the school may refuse to certify the student's eligibility for an unsubsidized Stafford loan if the student has a nominal amount of eligibility and the lender has a minimum loan amount that exceeds the student's eligibility. The school must document in the student's file the reason it did not certify a Stafford loan.
[HEA 428(a)(2)(f); §682.201(a)(1) and (2)]

Additional Eligibility for Unsubsidized Stafford Loans

If a dependent student's parent is unable to obtain a PLUS loan, or the school does not participate in the Federal PLUS Loan Program, the school may certify additional unsubsidized Stafford loan funds for the student to the full extent of the loan limit—provided the loan funds do not exceed the student's need. Only one parent need be unable to obtain a PLUS loan in order for the dependent student to be eligible for the additional unsubsidized Stafford loan funds.

However, if either parent subsequently is determined to be eligible for a PLUS loan *after* the school certifies the student for additional unsubsidized Stafford loan funds, the school must return to the lender any additional unsubsidized Stafford loan funds received by the school but not yet delivered to the student for that loan period. The school must request the cancellation of any future disbursements of the additional unsubsidized Stafford loan funds. The school is not responsible for recovering and refunding Stafford loan funds for which the student was previously determined eligible and which have been released to the student. However, those Stafford funds must be included in the estimated financial assistance (EFA) used in determining eligibility for the PLUS loan.
[DCL 96-L-186/96-G-287, Q&A #3]

5.4 Eligibility Requirements Specific to PLUS Loans

For purposes of obtaining a PLUS loan, an eligible parent borrower is a student's natural or adoptive mother or father or the student's legal guardian. The spouse of a parent who remarried is eligible to borrow a PLUS loan if the spouse's income and assets would have been taken into account when calculating a dependent student's expected family contribution. Any two eligible parents may borrow separately to provide for the educational expenses of the student—provided the combined borrowing of the parents does not exceed the calculated cost of attendance (COA) minus aid.
[§668.2(b); §682.201(b)(2)]

To be eligible for a PLUS loan, a parent borrower must be applying for the loan to pay the postsecondary educational costs for an eligible dependent undergraduate student who is enrolled or accepted for enrollment at least half time at a participating school.
[§682.201(b)]

When certifying a PLUS loan application and promissory note, a school that performs need analysis to determine PLUS loan eligibility must consider as estimated financial assistance (EFA) all types of Title IV aid for which the student is eligible—except for the amount of unsubsidized Stafford eligibility (unless the student is seeking such a loan). A school is not required to perform need analysis for PLUS loans.

Credit Evaluation

A parent borrower is not eligible for a PLUS loan if he or she is determined by a lender to have adverse credit history according to criteria in federal regulations. At the lender's option, a prospective PLUS borrower may obtain a creditworthy endorser if the borrower is otherwise unable to establish creditworthiness. If the PLUS loan applicant is required to obtain an endorser in order to be eligible for the PLUS loan, the student for whom the loan is being obtained cannot serve as the endorser.

To determine whether a prospective PLUS borrower or endorser has adverse credit, the lender must obtain a credit history for the individual from at least one national credit bureau. The credit history should be requested so that it represents the individual's most current credit information before the first day of the enrollment period for which the loan is intended. A lack of credit history or insufficient credit history is not considered adverse credit for these purposes.

A PLUS loan applicant is considered to have adverse credit if either of the following conditions apply:

- The applicant is 90 days or more delinquent on the repayment of any debt.
- The applicant has been the subject of a default determination on any debt, foreclosure, tax lien, repossession, wage garnishment, bankruptcy discharge (see subsection 5.2.F.), or write-off of a Title IV debt during the 5-year period before the date of the credit report.

A loan that has been discharged as the result of a closed school or false certification claim may not be considered to represent adverse credit.

If adverse credit is identified in the applicant's credit history, the lender may approve the loan only if it determines that extenuating circumstances exist. The applicant's file must include documentation supporting the lender's decision. Examples of acceptable documentation include, but are not limited to:

- An updated credit report indicating that the applicant is no longer 90 days or more delinquent.
- An updated credit report correcting the information found on the original credit history that resulted in an adverse credit determination.
- A statement from the creditor that the applicant has made satisfactory arrangements to repay each debt that resulted in the adverse credit determination.
- For each debt of less than $500 that is 90 days or more delinquent, a satisfactory written explanation from the applicant of the reason for the delinquency.

A lender may use credit standards that are more restrictive than those listed in this subsection—such as an assessment of the applicant's or endorser's ability to repay—provided the standards are applied consistently to all applicants for PLUS loans.
[§682.201(b)(1)(vii)]

If a borrower obtains an endorser or comaker, the lender must ensure that it obtains enough information to collect the loan from the endorser or comaker if necessary. Such information should include, but is not limited to, an address and telephone number.

5.5 Determining the Student's Dependency Status

Before certifying a loan, a school must determine whether the student is a dependent or independent student. This determination will affect the school's computation of the expected family contribution (EFC) and the types and amounts of aid for which the student may be considered eligible.

For purposes of Stafford and PLUS loans, a student is considered independent if he or she meets one or more of the following criteria:

- The student is at least 24 years old by December 31 of the award year.
- The student is an orphan or ward of the court, or was a ward of the court until he or she reached age 18.
- The student is a veteran of the U.S. Armed Forces.
  A student who enrolls in a service academy but who withdraws before graduating is considered a veteran for purposes of determining dependency status. If the school is aware that the student was released from the academy under dishonorable circumstances, the student may not be considered a veteran for purposes of determining his or her dependency status.
- The student is a graduate or professional student—regardless of whether the student is claimed as an income tax exemption by his or her parents for the first calendar year of the award year.
- The student is married.
- The student has legal dependents other than a spouse.
- The student is determined to be independent—and is documented as such—by a financial aid administrator on the basis of special circumstances.
  [HEA 480(d); DCL GEN 95-54]

A student is considered dependent if he or she does not meet any of the preceding criteria for an independent student.
[§668.2(b)]

A financial aid administrator (FAA) must document the student's file with information regarding a change in dependency status. The FAA may not require an independent student to file as a dependent; however, the FAA may adjust the student's assets or income to reflect a parental contribution if that action is appropriate. An FAA also may change a student's status from dependent to independent in circumstances where the FAA uses professional judgment to determine that such a change is appropriate.
[HEA 480(d); §668.2]

5.6 Verification Requirements

A school may require student financial aid applicants to document the data used in determining a student's expected family contribution (EFC). A school is required to use such documentation to verify the EFC if the student aid applicant is selected by the Central Processing System (CPS) according to criteria established by the Department, or if the school has reason to believe that any information provided on a student aid application used to calculate an EFC is incorrect. Unless the school has reason to believe that the information provided in the application is incorrect, verification is not required if the student has no need—even if the student's aid application is selected for verification. PLUS borrowers are not subject to verification, although PLUS loan eligibility may be affected by the verification process. Foreign schools are exempt from verification requirements with respect to a Stafford or PLUS loan applicant's financial information. Other schools also may be exempt from certain verification requirements if they are participating in the Department's Quality Assurance Program (see section 4.12).

School Responsibilities

If an applicant is selected for verification and the school believes that the information provided on the FAFSA is correct, it may certify a loan, but may not release loan proceeds before the verification process is complete. If verification is not completed within 45 days from the date the school receives the loan proceeds, the school must return the proceeds to the lender promptly, but no later than 10 business days after the last day of the 45-day period.
If, during the 10-business-day return period, the verification process is completed, the school may deliver the proceeds rather than return them to the lender, provided the delivery is made on or before the last day of the return period.
For more information on delivery requirements, see subsection 6.3.E.
[§668.58; §668.167(b); Department of Education Policy Bulletin dated June 2, 1997]

If the EFC used in certifying a FFELP loan changes as a result of the verification process, the school must make the necessary corrections and any resulting adjustments to the borrower's loan eligibility. No tolerance is permitted on a FFELP loan when determining whether a loan should be decreased. The school is responsible for eliminating any overaward resulting from corrections necessitated by the verification process (see subsection 6.3.B.).

A school must develop and apply an adequate system to identify and resolve discrepancies in the information provided by the aid applicant. The school must reconcile all conflicting information before disbursing any funds, whether or not the student's application was selected for verification. It is the school's responsibility to ensure compliance with federal requirements and verification procedures. For more information on verification, schools should refer to federal regulations and the Department's most recent *Verification Guide*.
[§668(f); §668, Subpart E; *The Verification Guide*]

5.7
Loan Limits and Amounts

A Stafford or PLUS loan amount must never exceed the maximum amount the borrower is eligible to receive or the amount the borrower requested, whichever is less. A loan disbursed in excess of the lesser of these two amounts may lose its guarantee and eligibility for interest benefits and/or special allowance payments. A PLUS loan may not exceed the cost of attendance (COA) minus estimated financial assistance (EFA), but otherwise is not limited.

Based on all information available, a school is responsible for ensuring that a borrower does not receive a loan in excess of the Stafford annual or aggregate loan limits. For more information on annual loan limits, schools should refer to the guidelines issued by the Department in *The Federal Student Financial Aid Handbook* (chapter 10) and in 34 CFR 682.603(d)(1).

Effects of Borrowing in Excess of Loan Limits on New Stafford Loan Eligibility

If a borrower inadvertently exceeds an annual or aggregate loan limit under a Title IV program, the borrower will not be eligible for any additional loans until one of the following occurs:

- The borrower authorizes the school to adjust the excess loan amount or reallocate funds between a subsidized Stafford loan and an unsubsidized Stafford loan for which the borrower is eligible. For more information on adjusting or reallocating loan amounts, see subsection 6.1.H.

- The borrower repays in full the excess loan amount.

- The borrower makes arrangements satisfactory to the holder of the loan to repay the excess loan amount. [§668.35(b)(1)(2); *The Federal Student Financial Aid Handbook*, chapter 2]

If a borrower exceeds an annual or aggregate loan limit as a result of providing false or misleading information, the borrower can only regain eligibility for Title IV aid by paying excess funds in full.

A school may not certify a new loan for any amount that will cause the borrower to again exceed the annual or aggregate loan limit.

Prorated Loan Limits

A school also is responsible for determining whether prorated loan limits are applicable and how annual loan limits must be prorated. An undergraduate Stafford loan borrower is subject to certain prorated loan limits if he or she is enrolled in a program of study that meets either of the following criteria:

- The program's duration is shorter than the statutory minimum for an academic year (based on credit hours, clock hours, or the minimum 30 weeks of instructional time).

- The program's duration is equal to or longer than the statutory minimum for an academic year, but the borrower is completing the remainder of the program in a period of enrollment that is shorter than an academic year.

In prorating a loan amount for a student enrolled in a program of study with less than a full academic year remaining, the school need not recalculate the amount of the loan if the number of hours for which an eligible student is enrolled changes after the school certifies the loan. If the student drops from full-time after the loan has been certified, but continues to be enrolled at least half time, the loan amount need not be adjusted due to the decrease in hours. However, the student must continue to be eligible to receive the loan funds at the time the funds are delivered.

If the student whose loan was originally prorated because his or her remaining program of study was less than a full academic year increases the number of hours to a full academic year, the student may need to complete a new application to apply for any additional loan eligibility. If the student requests an increased loan amount, the school may certify the increased loan amount for an eligible borrower without requiring the student borrower to complete a new MPN. For more information on increased loan amounts, see subsection 6.1.H.
[DCL GEN-98-25; DCL GEN-99-9]

Effects of Consolidation Loan on New Stafford Loan Eligibility

When certifying a new Stafford loan, the financial aid administrator should consider the effects, if any, a student's Consolidation loan will have on his or her eligibility for the new loan. If a student is applying for a subsidized Stafford loan, the financial aid administrator may assume that a previously borrowed Consolidation loan includes only subsidized Stafford loans. If a student is applying for an unsubsidized loan, the financial aid administrator may assume that the previously borrowed Consolidation loan

includes only unsubsidized Stafford loans. Based on these assumptions, if the student borrower exceeds the aggregate loan limits, the underlying loan documentation should be secured from available sources, such as the student, the school, or through the National Student Loan Data System (NSLDS), and should be retained by the party making the determination.
[DCL 96-L-186/96-G-287, Q&A #15]

5.7.A.
Defining an Academic Year

An academic year is a period of at least 30 weeks of instructional time that begins on the first day of classes and ends on the last day of classes or examinations. During this period, a full-time undergraduate student would be expected to complete a minimum of 24 semester or trimester hours, or 36 quarter hours. For a school measuring academic progress in clock hours, the student would be expected to complete at least 900 clock hours of instructional time.

Graduate and professional programs must comply with the 30-week minimum period. In addition, a school is expected to establish academic standards to determine the amount of work that a full-time graduate or professional student should complete within an academic year.

A school may define an academic year that is longer than 30 weeks. In some cases, the school may define an academic year that is shorter than the required 30 weeks. A shorter period may be approved by the Department if the following criteria are met:

- The program results in a two-year associate degree or four-year bachelor's degree.
- The school submits a written request to the Department for a reduced academic year that is no less than 26 weeks and includes information to identify the program to which the reduced year will be applied, the number of weeks that will be included in the proposed reduced year, and any other information requested by the Department.
  [§668.2; §668.3]

Scheduled Academic Year (SAY)

For a student enrolled at a school with a scheduled academic year (SAY), the school term begins at about the same time each year. The year begins on the first day of classes, ends on the last day of classes or examinations, and meets the statutory definition of an academic year.

Borrower-Based Academic Year (BBAY)

For a student enrolled at a school without standard terms, the academic year that applies is a borrower-based academic year (BBAY). With a BBAY, the student must complete the required number of clock or credit hours before the school may advance the borrower's grade level. A BBAY begins with a student's start date and tracks the student's progress until the required number of weeks and credit or clock hours have been completed.

Schools with scheduled academic years also may make academic year determinations based on a BBAY.

STATUTORY DEFINITION OF AN ACADEMIC YEAR

Method used to measure academic progress	Number of hours a student enrolled full time is expected to complete in a full academic year	Minimum Instructional Time Requirement
Semester hours	24 semester hours	30 weeks
Trimester hours	24 trimester hours	30 weeks
Quarter hours	36 quarter hours	30 weeks
Clock hours	900 clock hours	30 weeks

Adapted from: *Trainee Guide: 1995-96 Delivery System Training Workshop*, U.S. Department of Education, December 22, 1994, page TG2-23.

FREQUENCY OF ANNUAL LOAN LIMITS

	Scheduled Academic Year (SAY)	Borrower-Based Academic Year (BBAY)
Term-Based Programs	Academic year begins at approximately the same time each calendar year School must use a SAY that meets the statutory requirements of an academic year Loan period may not always include all terms in SAY Borrower always regains eligibility at beginning of SAY All loans borrowed during SAY must be within annual limit for student's grade level After original loan, additional loans are permissible if • Student has remaining eligibility, or • Student progresses to the next grade level Summer term may be "leader" or "trailer" to the SAY, per • Strict policy • By program • Case by case Mini sessions may be treated as a single term or individual terms assigned to different SAYs	Academic year floats with student's enrollment School may use if SAY is at least 30 weeks Length of BBAY must equal number of terms in SAY, not including summer trailer or leader • Number of hours/weeks in BBAY need not meet 30-week minimum • BBAY begins with term in which student actually enrolls • BBAY may include terms student does not attend, if student could have enrolled at least half time School may use BBAY for • All students • Certain programs • Certain students Mini sessions must be treated as a single term and student need not enroll in all mini sessions, but must have been able to enroll in all at least half time May alternate SAY and BBAY for a student if no overlap of academic years
Nonterm Programs	Not applicable	BBAY must meet the minimum statutory requirements or equivalent Student may not borrow additional loan for progress to next grade level until the student completes both the minimum number of weeks and credit/clock hours in an academic year

Adapted from: *Trainee Guide: 1995-96 Delivery System Training Workshop*, U.S. Department of Education, December 22, 1994, page TG5-30.

5.7.B.
Defining Enrollment Status

The definition of an academic year is based on the period of time during which a full-time student is expected to complete the academic program. As a key criterion, a school must establish a definition of full-time enrollment status for each of its programs of study. A student's enrollment may include any combination of coursework, work, research, or special studies.

Undergraduate Students

For an undergraduate student, the school's definition of full-time enrollment for a program must equal or exceed one of the following minimum standards:

- 12 semester or quarter hours per academic term, for a program in which academic progress is measured in semester, trimester, or quarter hours.
- 24 semester or 36 quarter hours per 30-week academic year, for a program in which academic progress is measured in credit hours rather than semester, trimester, or quarter hours. In this case, a week is considered a period of time in which at least 12 hours of regularly scheduled instruction, examinations, or preparation for examinations occurs.
- 24 clock hours per week, for a program in which academic progress is measured in clock hours.
- A series of courses or seminars that equals 12 semester hours or 12 quarter hours in a maximum of 18 weeks.
- The work portion of a cooperative education program in which the amount of work performed is equal to the academic workload of a full-time student.
- In an educational program using both credit and clock hours, any combination of credit and clock hours in which the sum of the following fractions is equal to or greater than one:

  For a program using a semester, trimester, or quarter system:

$$\frac{\text{number of credit hours per term}}{12} + \frac{\text{number of clock hours per week}}{24}$$

  For a program not using a semester, trimester, or quarter system:

$$\frac{\text{number of semester or trimester hours per academic year}}{24} + \frac{\text{number of quarter hours per academic year}}{36} + \frac{\text{number of clock hours per week}}{24}$$

Half-time enrollment is considered half of the full-time status defined by the school for its students.

Determining the Student's Grade Level

A student's grade level is an intrinsic part of determining the loan amount for which the student is eligible. A grade level is determined in part by the length of the program of study established and published in the school's procedures.

A student's grade level may be advanced after the student completes a minimum of 24 semester or trimester hours, 36 quarter hours, or 900 clock hours in 30 instructional weeks. However, a school may require the student to complete more than these minimum requirements before advancing the student's grade level.

Graduate and Professional Students

A school may establish a lower minimum full-time enrollment status definition for a graduate and professional program.
[§668.2]

5.7.C. Determining the Period of Enrollment

The period of enrollment is the period for which a Stafford or PLUS loan is intended. The period of enrollment must coincide with a bona fide academic term established by the school for which school charges are generally assessed (i.e., semester, trimester, quarter, length of the student's program, or the school's academic year). The period of enrollment is also referred to as the "loan period."

The period of enrollment for which a school may certify a loan is generally an academic year. The maximum period of enrollment for which a school may certify a loan application is 12 months.

The minimum period of enrollment for which a school may certify a loan is a single academic term (e.g., a semester or quarter) if the student is attending a school that measures academic progress in credit hours and uses a semester, trimester, or quarter system. For a school that measures academic progress in clock hours (or in credit hours, but does not use a semester, trimester, or quarter system), the minimum period of enrollment for which a school may certify a loan is the length of the student's program at the school, the school's academic year, or the student's remaining period of enrollment for the program of study at the school, whichever is less.

5.7.D. Determining the Loan Amount

The maximum loan amount a borrower is eligible to receive for each academic year is the lesser of:

- The amount certified by the school—whether that amount is calculated as the estimated cost of attendance minus any financial assistance (and, for a subsidized Stafford loan, minus the expected family contribution) or a reduced eligibility amount determined by the school.
- The applicable annual loan limit for the loan type, program length, and grade level.
- The remaining eligibility under the applicable aggregate loan limit.
- The loan amount requested by the borrower.

A lender may, at its discretion, approve a loan amount that is less than the amount for which the borrower might otherwise qualify.

Credit-Hour Programs

A school must apply the appropriate formula (see subsection 4.1.C.) to determine the amount of Stafford funds that a student who is enrolled in the program is eligible to receive. Based on this calculation, the school must determine whether the student's educational program constitutes a full academic year, at least two-thirds of an academic year, at least one-third of an academic year, or less than one-third of an academic year (see subsection 5.7.H.). The school must then calculate the loan amount that reflects the length of the student's educational program.

The PLUS program does not require loans to be reduced based on the length of a student's educational program. If the school determines that the student is enrolled in an eligible program, no further action is necessary. If, however, the student is enrolled in a program the school determines is not eligible, the school cannot deliver any loan proceeds.

See subsection 4.1.C. and chapter 3 of *The Federal Student Financial Aid Handbook* for more information on the clock-hour/credit-hour conversion requirement for certain schools. [§668.8(k) and (l); §668.9; *The Federal Student Financial Aid Handbook*, chapter 3]

5.7.E. Determining the Student's Cost of Attendance (COA)

A student's cost of attendance (COA) for the loan period indicated on the application and promissory note includes tuition and fees applicable to the student's attendance. The COA also must include the school's estimate of other expenses reasonably related to attendance at that school, including origination and guarantee fees associated with each Stafford or PLUS loan for which the student or parent borrower is applying. The COA must include only those costs already incurred, or expected to be incurred, by the student over the course of the loan period. It may not include outstanding charges or fees from a previous period of enrollment.

If a school requires the student to pay the tuition and fees for an entire program at the time of initial enrollment in the program, the school must include these total charges in the COA on the first application and promissory note submitted by the borrower for that program.

Cost of Attendance Components

A student's cost of attendance (COA) for an enrollment period is comprised of the following, as applicable:

Tuition and Fees
The COA should include tuition and fee charges normally assessed a student with the same academic workload—including costs for the rental or purchase of equipment, materials, or supplies required of all students in the same course of study.

Room and Board
The COA should include room and board expenses as follows:

- For a student without dependents who lives at home with parents, these expenses must be at least $1,500.
- For a student without dependents who lives in institutionally owned or operated housing, these expenses should be equal to the standard charges normally assessed most residents for such housing.
- For all other students, these expenses must be at least $2,500, based on reasonably incurred expenses.

Books, Supplies, Transportation, and Personal Expenses
The COA should include an allowance for books, supplies, transportation, and miscellaneous personal expenses, as determined by the school.

Dependent Care
The COA for an independent student with one or more dependents should include an allowance for dependent care. This allowance is based on the estimated expenses incurred (during periods that include class time, study time, field work, internships, and commuting time for the student) based on the number and age of the dependents—not to exceed the reasonable cost in the community for the type of care provided.

Disability-Related Expenses
The COA for a physically or intellectually challenged student should include an allowance for expenses related to the student's special needs. Expenses may be included for special services, personal assistance, transportation, equipment, and supplies—provided they are reasonably incurred and the services are not provided by other agencies.

Study-Abroad Program
The COA for a student participating in a study-abroad program may include reasonable costs for that program—provided the program is approved for credit by the student's home institution.

Cooperative Education
The COA for a student working as part of a cooperative education program should include an allowance for reasonable costs associated with such employment.

Origination and Guarantee Fees
The COA must include origination and guarantee fees associated with each Stafford or PLUS loan for which the student or parent borrower has applied.

Exceptions

Generally, the COA for a correspondence study student may include only tuition and fees. However, if the student is fulfilling a required period of residential training, the COA may include required books, supplies, travel, and specific room and board costs incurred.

The COA for a student receiving instruction via telecommunications (see definition in subsection 5.2.I.) may not include the cost of renting or purchasing equipment required to accommodate the study. For a program of study in which telecommunications are used to deliver to students any course that is also delivered in person to other students at the school, an FAA at the school must use professional judgment to determine whether the use of telecommunications would result in a substantially reduced COA. If the COA would be substantially reduced, the FAA must reduce the student's eligibility for grants, loans, or work-study assistance.

Documentation Requirements

Federal regulations require that the data used to construct a student's budget for COA purposes, or the school's itemized standard budget for COA purposes, be made part of the school's records and be available for review.
[HEA 472; §682.610(d)]

5.7.F. Determining the Expected Family Contribution (EFC)

The amount a student and his or her family are expected to pay for education expenses is determined by the financial information provided by the student and parent(s) on the Free Application for Federal Student Aid (FAFSA).

The data provided on the FAFSA is processed using a federally prescribed need analysis formula to derive the expected family contribution (EFC). The calculation is performed by the Central Processing System (CPS) contractor selected by the Department. The EFC figure is sent to the school on a need analysis output document and is used by the school to determine the student's eligibility for a Stafford loan.

A financial aid administrator (FAA) may use professional judgment to adjust data elements used in determining a student's EFC, if extenuating family circumstances may cause the data to yield an EFC that would not accurately reflect the family's ability to contribute to the student's education. The FAA must document any adjustment to the EFC in the student's file. For more information on FAA professional judgment, see subsection 5.8.C.

When calculating eligibility for a subsidized Stafford loan, a school may offset all or any portion of the student's EFC with any PLUS loan, unsubsidized Stafford loan, or other education loan obtained for the period of enrollment.

5.7.G. Determining the Amount of Estimated Financial Assistance (EFA)

To determine a student's eligibility for a Stafford loan or a parent's eligibility for a PLUS loan, the school must deduct from the student's cost of attendance any other types of financial assistance the student has received, or will receive, for the appropriate period of enrollment.

A student's estimated financial assistance (EFA) includes all aid the student—or a parent on behalf of a student—will receive for the enrollment period from federal, state, institutional, or other sources. Examples of aid that must be included are scholarships, grants, financial need-based employment income, and loans—including, but not limited to:

- Veterans' educational benefits.
- Reserve Officer Training Corps (ROTC) scholarships and subsistence allowances.
- Benefits paid under the Selected Reserve Educational Assistance Program, Restored Entitlement Program for Survivors, or Educational Assistance Pilot Program.
- Any educational benefits paid because of enrollment in a postsecondary education institution.
- The estimated amount of other federal student financial aid—including, but not limited to, Federal Pell Grant, campus-based aid, and the gross amount (including fees) of any subsidized Stafford, unsubsidized Stafford, or PLUS loan.

A student's EFA does not include:

- Amounts used to replace the expected family contribution, including unsubsidized Stafford loan amounts, PLUS loan amounts, or private or state-sponsored loan funds.
- Federal Perkins loans and College Work-Study funds the school determines the student has declined for any reason.
  [§682.200(b)]

5.7.H. Stafford Loan Annual and Aggregate Loan Limits

The amount of Stafford loan funds that a student may borrow for each academic year—the annual loan limit—is based on whether the student is enrolled in an undergraduate, graduate, or professional program of study. For an undergraduate student, the annual loan limit varies according to several factors:

- The student's dependency status, as defined in section 5.5.
- The year of study in which the student is enrolled (first, second, third, fourth, or subsequent year).
- The length of the undergraduate program of study, regardless of how long it takes the student to complete the program.
- The length of the student's program or final period of enrollment, expressed as a proportion of the school's academic year.

A Stafford aggregate loan limit does not include the amount of any PLUS loan borrowed by the student or his or her parents. A borrower who has reached the FFELP aggregate limit and who repays part of that principal through refunds, prepayments, payments, cancellations, discharge, or other reductions in principal regains eligibility up to the lesser of the applicable annual loan limit or the aggregate amount.

In addition, a Stafford aggregate loan limit does not include the amount of capitalized interest or any collection costs that may have been added to the principal balance of the borrower's prior loans. When determining the borrower's Stafford loan eligibility, the financial aid administrator may assume that all outstanding principal balances include only the balance of original principal. However, the school must secure and retain documentation of the capitalized amount included in any reported loan balances if the school's certification of a new loan would otherwise cause the borrower to exceed his or her aggregate limit.

A Stafford aggregate loan limit must also include:

- The portion of any outstanding Consolidation loan made under the FFELP or FDLP that was derived from a Stafford or SLS loan included in the consolidation. See section 5.7 for more information.
- The amount of any outstanding Direct Stafford loan made under the FDLP.
  [§682.204(j)]

The borrower, school, and lender are encouraged to work with the guarantor to provide information about the borrower's unpaid principal balance, if documentation is necessary prior to approving the borrower's loan.

Undergraduate Students

The Stafford annual and aggregate loan limits for undergraduate students are detailed in the table on the following page.

Graduate and Professional Students

The Stafford annual loan limit for a student enrolled in a graduate or professional program of study is $18,500 for each academic year, with subsidized Stafford loans comprising no more than $8,500 of the total amount.

A graduate or professional student's unpaid principal amount of all Stafford loans (including all SLS and Direct Stafford loans received or any portion of an outstanding Consolidation loan that paid in full a Stafford, SLS, or Direct Stafford loan) may not exceed $138,500, with subsidized Stafford loans comprising no more than $65,500 of the total amount.
[HEA 428(b)(1)(B)(ii); §682.204(b) and (e)]

The amount a student borrows while enrolled as a graduate or professional student does not count toward the student's undergraduate aggregate loan limit.

STAFFORD ANNUAL LOAN LIMITS

	Length of Program or Final Enrollment Period	
	1 academic year	Less than 1 academic year
First-Year Undergraduates		
Base Stafford eligibility (subsidized and unsubsidized)	$2,625	proportional proration
Additional unsubsidized Stafford eligibility	$4,000	proportional proration
Second-Year Undergraduates		
Base Stafford eligibility (subsidized and unsubsidized)	$3,500	proportional proration
Additional unsubsidized Stafford eligibility	$4,000	proportional proration
Third-, Fourth-, and Fifth-Year Undergraduates		
Base Stafford eligibility (subsidized and unsubsidized)	$5,500	proportional proration
Additional unsubsidized Stafford eligibility	$5,000	proportional proration

Proportional Proration
Where noted above, the annual loan limit is prorated by determining the ratio of the student's program or remainder of the student's program (as measured in clock or credit hours) to a full academic year and multiplying that ratio by the applicable annual loan limit for a full academic year.

Dependent Undergraduate Students
The total amount of subsidized and unsubsidized Stafford loans made to a dependent undergraduate student for any academic year may not exceed the "base Stafford eligibility" specified above for that student's grade level. A dependent undergraduate student's unpaid principal amount of subsidized and unsubsidized Stafford loans (including all Direct Stafford loans received or any portion of an outstanding Consolidation loan that paid in full a Stafford or Direct Stafford loan) may not exceed $23,000.

If a dependent undergraduate student's parent is unable to obtain a PLUS loan (because the parent has adverse credit, the school does not participate in the PLUS program, or other exceptional circumstances exist that are documented by the FAA), the total amount of subsidized and unsubsidized Stafford loans for any academic year may not exceed the "base Stafford eligibility" plus the "additional unsubsidized Stafford eligibility" specified above for that student's grade level. Only one parent need be unable to obtain a PLUS loan for the student to be eligible for the additional loan funds. See Section 5.3 for more information.

The student's aggregate unpaid principal amount of all Stafford loans (including all SLS loans and Direct Stafford loans received or any portion of any outstanding Consolidation loan that paid in full a Stafford, SLS, or Direct Stafford loan) may not exceed $46,000 for undergraduate study, with subsidized Stafford loans comprising no more than $23,000 of the total limit. See Section 5.7 for more information.

Independent Undergraduate Students
The total amount of subsidized and unsubsidized Stafford loans for any academic year may not exceed the "base Stafford eligibility" plus the "additional unsubsidized Stafford eligibility" specified above for that student's grade level. An independent undergraduate student's unpaid principal amount of all Stafford loans (including all SLS and Direct Stafford loans received or any portion of an outstanding Consolidation loan that paid in full a Stafford, SLS, or Direct Stafford loan) may not exceed $46,000 for undergraduate study, with subsidized Stafford loans comprising no more than $23,000 of the total limit. See Section 5.7 for more information.

Applying Stafford Annual Loan Limits

In determining the appropriate Stafford annual loan limit for an undergraduate student, schools and lenders must adhere to the following additional parameters:

- The annual loan limits for first- and second-year students apply to any student who has not successfully completed the first or second year, respectively, of the undergraduate program in which the student is enrolled. This includes transfer students and students who have completed programs of study at other schools.

- A dependent student enrolled in a program that is normally completed in two academic years or less is not eligible for Stafford loan funds exceeding $3,500 per academic year, regardless of the actual length of time it takes the student to complete the program. [§682.204(a) through (e)]

- In determining the annual loan limit for a student enrolled in a school that requires an associate or bachelor's degree for admission to a program, the school may consider the number of years the student completed in the required degree program to determine the grade level when certifying the annual loan limit. [HEA 428(b)(1)(A)(iv)]

- A student with an associate degree—when the degree is a requirement for a certificate program in which he or she is enrolled—may receive up to $5,500 in base Stafford loan funds, and up to $5,000 in additional unsubsidized Stafford loan funds if the student is an eligible independent student.

- A dependent student who is considered by the school to be a first-year student in a program for which he or she is currently seeking a degree is eligible to receive combined subsidized and unsubsidized Stafford loan funds of no more than $2,625 per academic year—even if that student previously obtained an undergraduate degree in a different program.

- A student enrolled in a teacher certification program must be treated as a fifth-year undergraduate student. If the student meets all other eligibility criteria, he or she may borrow up to $5,500 in base Stafford loan funds and up to $5,000 in additional unsubsidized Stafford loan funds.

- A student who is taking preparatory coursework that the school has determined and documented to be necessary for the student to enroll in an undergraduate program may borrow at the first-year undergraduate loan level. If a student meets all other eligibility criteria, he or she may borrow up to $2,625 in base Stafford loan funds and up to $4,000 in additional unsubsidized Stafford loan funds. A student is eligible for loans for one period of 12 consecutive months beginning on the first day of the loan period for which the student is enrolled.

- A student who is taking preparatory coursework that the school has determined and documented to be necessary for the student to enroll in a graduate or professional program may borrow at the fifth-year undergraduate loan level. If the student meets all other eligibility criteria, he or she may borrow up to $5,500 in base Stafford loan funds and up to $5,000 in additional unsubsidized Stafford loan funds. Preparatory coursework required for admission into a graduate or professional program may be taken at a school that is not generally permitted to certify loans at the fifth-year undergraduate loan level. A school may certify loans at the fifth-year level for these students. A student is eligible for loans for one period of 12 consecutive months beginning on the first day of the loan period for which the student is enrolled. [DCL GEN-98-2; *The Federal Student Financial Aid Handbook*, chapter 10]

5.7.I. Interest Subsidy on Stafford Loans

The loan amount certified by the school on a Stafford loan indicates the student's eligibility for a Stafford loan.

Subsidized Stafford Loans

A subsidized Stafford loan made for the certified amount or less—subject to the applicable Stafford annual and aggregate loan limits—is eligible for federal interest subsidy. The Department pays accruing interest on behalf of the borrower to the lender on a subsidized Stafford loan during the student's in-school, grace, deferment, and, if applicable, post-deferment grace periods (see appendix A). The borrower is responsible for paying the interest that accrues during all other periods.
[§682.300(b)(1)]

A school may certify a subsidized Stafford loan only for a borrower who demonstrates financial need. A borrower is not eligible to receive a subsidized Stafford loan that exceeds his or her unmet financial need, regardless of the amount of that need.

A student is not considered to have financial need if he or she is a member of a religious order, group, community, society, agency, or other organization that:

- Has the primary objective of promoting ideals and beliefs regarding a supreme being.
- Requires its members to forgo monetary or other support substantially beyond the support it provides.
- Directs the members to pursue the course of study or provides subsistence support to its members.

Unsubsidized Stafford Loans

Unsubsidized Stafford loans are authorized for borrowers who do not qualify for federal interest subsidy, borrowers who qualify only partially for subsidy, and borrowers who qualify for subsidy but have already borrowed the maximum subsidized amount and are eligible for additional Stafford loan funds. Eligibility for an unsubsidized Stafford loan is calculated by deducting the sum of a student's subsidized Stafford loan eligibility and all other expected sources of financial assistance from the cost of attendance. The student is responsible for paying interest that accrues on his or her unsubsidized Stafford loan during all periods.

Nonsubsidized Stafford Loans

Before the 1992 Reauthorization of the Higher Education Act, a lender was permitted to make a nonsubsidized Stafford loan to a borrower who did not qualify for federal interest benefits and whose loan amount would not exceed the cost of attendance minus other financial assistance. Lenders did not pay origination fees on these nonsubsidized loans, and the loans were not eligible for interest benefits. Nonsubsidized Stafford loans remain eligible for all deferments and repayment options applicable to other Stafford loans.

5.8
School Certification of the Loan

In certifying a Stafford or PLUS loan, a school is required to make several determinations regarding the eligibility of the student—or the student and the parent in the case of a PLUS loan—and the maximum amount that may be borrowed (see section 5.7). The school must ensure it does not certify an amount that would result in the borrower receiving more than the borrower's actual eligibility. [§682.603(d)]

A school may not assess a Stafford or PLUS loan borrower, or student in the case of a PLUS loan, a fee for the completion or certification of any FFELP form or for providing any information necessary to receive an FFELP loan or any benefits associated with an FFELP loan. Examples include loan applications, promissory notes, enrollment verification requests, or deferment forms. [§682.603(g)]

Schools on the Reimbursement Payment Method or the Cash Monitoring Payment Method

A school that the Department has placed on the reimbursement payment method or the cash monitoring payment method for Federal Pell Grant, FDLP, or campus-based programs must comply with any additional requirements established by the Department regarding the certification and delivery of Stafford or PLUS funds to its borrowers.

A school participating solely in the FFELP may be required to seek the Department's approval to certify loan applications and deliver Stafford or PLUS loan funds if the Department determines a need to monitor the school's participation.

A school needing additional information from the Department on its individual requirements under the reimbursement payment method or the cash monitoring payment method should refer to appendix D for contact information.
[§668.167(d), (e), and (f); §682.604(a)(3)]

5.8.A. Preventing Overawards

A school must develop procedures to ensure that each Stafford and PLUS borrower does not receive a loan exceeding the applicable annual and aggregate loan limits (see section 5.7). In addition, the school must ensure that the total aid received for a period of enrollment does not exceed the student's certified need. After a school certifies a Stafford or PLUS loan, any changes in the type or amount of the student's awards may result in an "overaward." For more information on overawards, see subsection 6.3.B. [§682.604(h)]

5.8.B. Refusing to Certify an Application or Reducing Borrower Eligibility

A school may refuse to certify a loan or may reduce the borrower's eligibility for a loan (on a borrower-by-borrower basis) if it provides the reason for its action to the borrower in writing and retains documentation of the reason in the student's file. Reasons for refusing to certify a loan or reducing the borrower's eligibility for the loan might include:

- The school determines that the student's expenses to be covered by the loan (cost of attendance) can be met more appropriately by the school or directly by the student and/or borrower from other sources.
- The borrower indicates an unwillingness to repay the loan.

A school may not refuse to certify a loan if that refusal is based on policies that result in a pattern or practice of denying access to FFELP loans because of borrower race, sex, religion, national origin, age, income, or selection of a particular lender or guarantor. Practices at the school also may not discriminate against student borrowers who are physically, emotionally, or intellectually challenged—provided the student exhibits an appropriate ability to benefit. The school also may not refuse to certify a loan solely because it is aware that the student or borrower has filed a bankruptcy petition.
[§682.603(e)]

5.8.C. Financial Aid Administrator Professional Judgment

A financial aid administrator (FAA) is permitted to increase or decrease a student's cost of attendance (COA) and expected family contribution (EFC) based on extenuating circumstances. In adjusting the EFC, the FAA must adjust a specific data element within the calculation. Alterations must be documented in the student's file.

In determining whether a student has extenuating circumstances, an FAA may request and use additional information concerning the financial status or personal circumstances of a student or the student's family.
[DCL GEN-92-21; *The Federal Student Financial Aid Handbook*, chapter 10]

5.8.D. Determining the Disbursement Schedule

Federal regulations require a school to specify a disbursement schedule that provides for disbursements to be made on a payment-period basis for each Stafford and PLUS loan it certifies. The school may delegate its responsibility for assigning disbursement dates to a guarantor with whom it participates.

A school should attempt to assign disbursement dates with which the lender may reasonably comply. The school should not specify a disbursement date that will likely pass before the loan is guaranteed. An expired disbursement date may result in delayed processing of the loan.

In establishing the disbursement schedule, a school must allow for necessary mail and processing time. The school should provide the dates on which they would expect the lender to issue the check or master check or generate the EFT transaction—not the date on which the school anticipates receiving the funds. In addition, the school must schedule disbursement dates that comply with applicable delivery requirements. For more information on delivery requirements, see subsection 6.3.E.

Payment Period

The payment period is the basis on which a school must schedule and deliver disbursements for a particular loan period. The payment period begins on the first day of regularly scheduled classes. A payment period is determined by the structure of the school's academic program. At a school that does not use standard terms, a payment period is measured in credit or clock hours completed by the student in relation to the length of the student's program of study.

Other Disbursement Requirements
The payment period requirement does not eliminate any applicable multiple disbursement requirement (see subheading "Multiple Disbursement Required in Some Cases" later in this subsection) for a school to deliver loan proceeds in substantially equal installments, with no installment exceeding one-half of the loan amount. See subsection 6.2.B. for information about multiple disbursement and subsection 6.3.E. for information about proportional disbursement and special delivery requirements for programs with nonstandard terms.

Standard Term Credit-Hour Programs
For an eligible program that offers academic terms in semesters, trimesters, or quarters and measures progress in credit hours, the payment period is the semester, trimester, or quarter.

Credit-Hour Non-Standard Term, Credit-Hour Non-Term, and Clock-Hour Programs
For an eligible program that measures progress in credit hours and does not have standard terms or does not have terms, or that measures progress in clock hours, the payment period varies, depending on the length of the program, as shown below.

For an eligible program that is one academic year or less in length, the following applies:

- The first payment period is the period of time in which the student completes the first half of the program as measured in credit or clock hours.
- The second payment period is the period of time in which the student completes the second half of the program as measured in credit or clock hours.

For an eligible program that is more than one academic year in length, for the first academic year and any subsequent full academic year as measured in credit or clock hours, the following applies:

- The first payment period is the period of time in which the student completes the first half of the academic year as measured in credit or clock hours.
- The second payment period is the period of time in which the student completes the second half of that academic year.

For any remaining portion of an eligible program that is more than one-half an academic year in length, but less than a complete academic year, the following applies:

- The first payment period is the period of time in which a student completes the first half of the remaining portion of the eligible program as measured in credit or clock hours.
- The second payment period is the period of time in which the student completes the remainder of the eligible program.

For any remaining portion of an eligible program that is not more than one-half an academic year as measured in credit or clock hours, the payment period is the remainder of that eligible program.

If in an academic year, in a program of less than an academic year, or in the remaining portion of an eligible program that is more than one academic year in length, a school chooses to have more than two payment periods in the academic year, the number of payment periods must correspond to portions of the academic year. If a school chooses to have three payment periods, each payment period must correspond to one-third of the academic year. If three payment periods are used and the program or its remaining portion is more than one-third, but less than two-thirds of the academic year, two payments are required, with each payment period covering one-half of the remaining portion. If the remaining portion is greater than two-thirds of the academic year, but less than one academic year, three payments are required, each covering one-third of the remaining portion.
[§668.4]

Credit Hour Non-Standard Term Programs
If the student cannot earn one-half the credit hours in an eligible program that is less than one academic year in length or earn one-half of the remaining portion of an eligible program that is more than one academic year in length until after the calendar midpoint between the first and last scheduled days of class, the second payment period begins on the later of the following:

- The calendar midpoint between the first and last scheduled days of class of the program or academic year.
- The date, as determined by the school, that the student has completed one-half of the academic coursework.

Multiple Disbursement Required in Some Cases

A disbursement schedule must ensure that a Stafford or PLUS loan is disbursed in two or more installments, regardless of the loan amount—except in the following cases:

- A loan made to a student attending a participating foreign school may be scheduled for a single disbursement.
- A loan made for a period of enrollment that is not more than one semester, trimester, quarter, or for a school without standard terms, not more than 4 months, if the school's cohort default rate for each of the three most recent fiscal years for which information is available is less than 10%, may be scheduled for a single disbursement.
- A loan made to a student enrolled in a study-abroad program, if the eligible school at which the student will receive course credit for the study-abroad program has a cohort default rate of less than 5%, may be scheduled for a single disbursement.
  [HEA 428G(a)(3)]

When Disbursements May Be Made

For a Stafford loan disbursed by EFT or master check, the earliest date for which a first disbursement may be scheduled is:

- The 28th day of the first payment period if the student is a first-year undergraduate, first-time borrower and the school is subject to delayed delivery provisions for such students.
- 13 days before the first day of the first payment period for all other borrowers, including first-year undergraduate first-time borrowers at schools not subject to delayed delivery.

For a Stafford loan disbursed by individual check, the earliest date for which a first disbursement may be scheduled is:

- The first day of the first payment period if the student is a first-year undergraduate, first-time borrower and the school is subject to delayed delivery provisions for such students.
- 30 days before the first day of the first payment period for all other borrowers, including first-year undergraduate first-time borrowers at schools not subject to delayed delivery.

For a PLUS loan, the earliest date for which a first disbursement may be scheduled is:

- 13 days before the first day of the first payment period for a loan disbursed by EFT or master check.
- 30 days before the first day of the first payment period for a loan disbursed by individual check.

If the loan period for a Stafford or PLUS loan consists of one payment period, the school must schedule the second or subsequent disbursement so that the disbursement is delivered no earlier than the calendar midpoint between the first and last scheduled days of class of the loan period.

If the loan period for a Stafford or PLUS loan consists of more than one payment period, the earliest date for which a second or subsequent disbursement may be scheduled is:

- 13 days before the first day of any subsequent payment period for a loan disbursed by EFT or master check.
- 30 days before the first day of any subsequent payment period for a loan disbursed by individual check.

If the first disbursement would occur on or after the date on which the second or subsequent disbursement could be made, the first and second disbursements, or the first and subsequent disbursements, may be combined (see subsection 6.2.A.).
[§668.167(a); §682.207(b) and (c); §682.603(h); §682.604(c)(6)(ii)]

FIRST DISBURSEMENT TIMELINE

Standard Disbursement

Delayed Disbursement
(for first-year, first-time undergraduate Stafford borrowers attending schools subject to delayed delivery provisions)

A school may request the first disbursement (Stafford or PLUS loan) of an individual check up to 30 days before the first day of the first payment period.

30 days before

A school may request the first disbursement (Stafford or PLUS loan) of an EFT or master check disbursement up to 13 days before the first day of the first payment period.

13 days before

First Day of First Payment Period

A school may request the first disbursement of an individual check no earlier than the first day of the first payment period

28th day of first payment period

A school may request the first disbursement of an EFT or master check disbursement no earlier than the 28th day of the first payment period.

5.8.E.
Forwarding the Loan Information

After calculating the amount of the Stafford or PLUS loan, the school notifies the lender or the guarantor of the certified loan amount depending on the processing options established by the school. In many cases, the school also may transmit the loan information electronically.

▲ Schools may contact individual guarantors for more information on transmitting loan information electronically. See section 1.5 for contact information.

Although a school is no longer required to certify the student's cost of attendance (COA), expected family contribution (EFC), and estimated financial assistance (EFA), the school must maintain the COA, EFC, and EFA data used in computing the borrower's loan eligibility and make this data available upon request of the lender, the guarantor, or the Department.
[HEA 428(a)(2); 428H(b)]

A school must retain a copy of any certified common application and promissory note, MPN school certification, or record of the supporting data if the loan information was transmitted to the guarantor or lender electronically. The school also must ensure that the borrower receives a copy of the application and promissory note if the borrower's copy is received by the school. For more information on school recordkeeping requirements, see section 4.10.
[§682.610]

5.8.F.
The NCHELP FFELP CommonLine Network

The NCHELP FFELP CommonLine Network standardizes electronic loan application formats, edits, response files, and error messages. Electronic data transmission in the CommonLine format will be accepted by all guarantors.

As of the publication date of this manual, every guarantor in the country and most leading lenders and servicers have indicated that they will participate in the CommonLine Network.

CommonLine allows a school to exchange data with multiple guarantors, lenders, and servicers through a single point of contact, thus reducing the number of contacts and simplifying the process. A school will continue its direct electronic connection to its primary guarantor and/or lender, and the school-based software being used will be modified to allow all other application data to be sent to the appropriate agency's electronic mailbox. With CommonLine, a school may enter, send, and receive Stafford and PLUS loan certification and guarantee results from multiple guarantors through a single point of contact.

The goal of CommonLine is to simplify the loan guarantee process for schools by:

- Establishing common formats used by all participants.
- Allowing schools to use just one school-based software system to communicate with all CommonLine participants.
- Allowing schools to use their current software systems to communicate with organizations with which they currently have no electronic connection.

How CommonLine Works

Step 1:
A school uses its own school-based software to enter loan data in a common format and transmits the data via the Internet to participating guarantors. Only one transmission for all loan data is necessary; the software will sort the data by guarantor, lender, or servicer and send separate files to the appropriate organization's Internet mailbox.

Step 2:
The guarantor "picks up" the loan application and certification data from its Internet mailbox and performs normal loan processing functions. When processing of the loan request is complete, guarantee results are sent to the school's Internet mailbox.

Step 3:
The school uses its school-based software to retrieve the loan guarantee results from its mailbox; again only one transmission is needed.

Information on CommonLine is available from any FFELP guarantor or:

National Council of Higher Education Loan Programs
1100 Connecticut Avenue NW
12th Floor
Washington, DC 20036

Phone: (202) 822-1206

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6 Guarantee, Disbursement, and Delivery

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Chapter 6 outlines the lender's role in obtaining guarantees and disbursing proceeds for Stafford and PLUS loans. Chapter 6 also describes requirements and procedures regarding the school's delivery of Stafford and PLUS loan proceeds.

6.1
Obtaining a Loan Guarantee

6.1.A.
Lender Origination of the Loan

A lender's responsibilities in originating a Stafford or PLUS loan include all of the following:

- Ensuring that either the common Stafford or PLUS application and promissory note or the Master Promissory Note (MPN) has been properly completed and signed by the appropriate parties.

- Ensuring that alterations to any information completed by the borrower or the school on the common Stafford or PLUS application and promissory note or MPN are legible and initialed, as appropriate.

- Establishing the date from which to track the expiration of the MPN. This is the date the borrower signs the MPN. If the borrower fails to date the MPN or provides an erroneous date, the date on which the lender received the MPN may be used.

- Providing an explanation of the borrower's rights and responsibilities with respect to the loan. This information is provided as part of the common Stafford and PLUS application and promissory note and the MPN materials.

- Determining whether the lender's records conflict with the borrower or school information and resolving any conflicts.

- Ensuring that the borrower does not currently owe on a defaulted federal education loan held by the lender for which a claim has not been filed.

- Determining whether the borrower meets the lender's criteria. Each lender is responsible for developing and applying its own lending criteria, which may include restrictions on items such as area of service, types of loans, minimum loan amounts, or credit standards. A lender may not refuse to make a loan because of the applicant's race, national origin, religion, sex, marital status, age, disability, or solely on the basis of a prior bankruptcy.

- For a PLUS loan, determining that the borrower—or endorser, if applicable—does not have adverse credit or documenting the circumstances under which the borrower's adverse credit is considered immaterial with regard to making the loan.

- Determining the loan amount.

- Providing the borrower—and endorser, if applicable—a copy of the executed promissory note.

- Approving or denying the loan.

- Providing the borrower with initial disclosure information at or before the first disbursement of a loan (see subsection 6.1.I.).

- Notifying the borrower if the loan is denied. When denying a loan request, the lender must, under the Equal Credit Opportunity Act, provide the borrower with a notice (such as a Notice of Adverse Action) explaining the reason for the denial.

- Reporting and paying the federal origination fee to the Department and the guarantee fee to the guarantor, and collecting the fees from the borrower, as applicable (see section 6.6).

- Reporting and paying the 0.5% lender origination fee to the Department (this fee cannot be charged to the borrower).

- Disbursing the loan in accordance with federal regulations and the disbursement schedule provided by the school (see section 6.2).

- Complying with state consumer credit laws where applicable (such as marital property disclosure requirements).
  [§682.206; §682.207; DCL GEN-98-25;
  DCL GEN-99-9]

The lender has the following additional responsibilities when making subsequent loans using the multi-year feature of the MPN:

- Determining the school's authorization to certify Stafford loans using the multi-year feature of the MPN, based on information provided by the Department.

- Providing the borrower with the Plain English Disclosure.

- Ensuring that either a confirmation or notification process is in place (see subsection 6.3.C.).

- Determining that the lender retains the right to originate loans using the MPN, if a previous loan made using the MPN has been sold or transferred to another holder.

- Verifying that the loan is supported by a signed MPN and that the ability to make subsequent loans using that MPN has not expired.

Under the terms of the MPN, a lender's ability to make subsequent loans to a borrower expires upon the earliest of:

- 12 months after the original MPN is signed if no disbursements were ever made using that MPN.

- 10 years from the date the borrower signs the MPN. However if a portion of the loan is disbursed on or before the date that is 10 years from the signature date, all remaining disbursements for that loan can be made.

- The date the lender receives written notification from the borrower that the MPN may no longer be used as the basis for making additional loans.
  [DCL GEN-98-25; DCL GEN-99-9]

The lender may delegate some or all of the preceding responsibilities to another party. However, the lender remains responsible for ensuring the activities are completed.

In determining whether a borrower or student meets eligibility requirements, the lender may, except as noted in this section, rely in good faith on the information provided by the borrower, student, and school. The lender is not required to verify loan information independently unless it has reason to believe that the information, as reported, is incorrect (for example, the borrower has failed to report a prior federal education loan default).
[§682.206(c)]

6.1.B.
Guarantee of the Loan

When the loan information is submitted to the guarantor, the guarantor reviews the applicant's eligibility based on the information provided and information on its data base. This information must meet federal requirements and applicable guarantor policy (such as area of service or one lender/one holder requirements).

In processing a loan for guarantee, the guarantor reviews the loan information. If the guarantor discovers that the information is incomplete, illegible, or in conflict with other information in its records, the guarantor will attempt to obtain the necessary information or resolve the conflict. If the guarantor is unable to obtain the information or the information must be collected in writing, the guarantor will notify the appropriate party (the lender, servicer, school, or borrower) and will complete processing only when it receives the necessary information. After the guarantor determines that the loan information is complete and the borrower is eligible, the loan is guaranteed and a guarantee disclosure is issued (see subsection 6.1.G.).

If the guarantor denies the loan guarantee due to noncompliance with federal regulations or guarantor policy, the guarantor will send an explanation of the reason for the denial to the lender, school, or borrower, as applicable.

Guarantors help ensure that all students eligible for interest subsidy on subsidized Stafford loans benefit from that subsidy. If a student fails to check the box on the common Stafford loan application indicating his or her request for a subsidized Stafford loan, but the school certifies subsidized Stafford loan eligibility for the student, the guarantor will guarantee the subsidized Stafford loan for the lesser of the amount certified by the school or requested by the student.

▲ Schools may contact individual guarantors for more information on guarantee processing. See section 1.5 for contact information.

Some guarantors have additional policies regarding the guarantee of loans. These policies are noted in appendix C.

6.1.C. Facilitating Guarantee Processing

A lender and school should ensure that the loan information for a Stafford or PLUS loan is accurate and complete before the loan is submitted for guarantee. To avoid the rejection of a loan guarantee, the following items should be checked:

- All portions of the common Stafford or PLUS application and promissory note or the Master Promissory Note (MPN) must be completed in ink or typed. If completed in pencil, the borrower must complete a new application and promissory note or MPN in ink.

- A valid social security number (SSN) must be provided by each applicant—and by each student for whom a Federal PLUS loan is obtained. If the item is blank or invalid, the applicant will be asked to provide or verify his or her SSN, and may be required to submit a copy of a social security card or other evidence establishing his or her number (see subsection 3.5.F.).

- Two complete references with different addresses are required.

- If completing the common Stafford application and promissory note, the borrower must indicate the total loan amount he or she is requesting. If this item is blank, illegible, or has been altered to a higher amount and has not been initialed by the borrower, the borrower must provide the correct information in writing.

- The borrower must sign and date the common Stafford or PLUS application and promissory note or the MPN. For PLUS loans, the student's signature on the loan application and promissory note also is required. The lender may use the receipt date as the signature date if the borrower did not provide a date on the note, or if the date is erroneous.

6.1.D. Stafford Loan Interest Rates

The interest rate on all Stafford loans first disbursed on or after July 1, 1994, is a variable rate and is not based on the interest rate applicable to any of the borrower's previous loans. The interest rate on any Stafford loan first disbursed before July 1, 1994, was based on whether the borrower was a "new borrower." For purposes of FFELP loans, a "new borrower" was any borrower who had no outstanding balance on a FFELP loan on the date he or she signed the promissory note for a FFELP loan. For loans disbursed before July 1, 1994, if the borrower had an outstanding balance on a Stafford loan on the date the borrower signed the application and promissory note, the borrower's new loan carried the same interest rate as on his or her outstanding loans.

A lender may choose to charge a borrower an interest rate that is lower than the maximum rate permitted by statute (the statutory rate). If a lower rate is charged, the lender must ensure that reports issued to the Department (such as the ED Form 799) are adjusted. See appendix A for more information on ED Form 799 reporting.

A lender must notify the borrower, at the time a lower interest rate is offered, that the lower interest rate ends on the date a default or ineligible borrower claim is purchased by the guarantor. The lender may provide this information in any format. Documentation of the notice must be maintained in the borrower's file. A lender is encouraged to include this documentation (showing that the borrower was informed that the lower interest rate expires upon claim purchase) with default and ineligible borrower claim files. The lender will be required to provide this documentation if a borrower challenges the guarantor or the Department for charging the applicable statutory maximum interest rate during postclaim interest accrual. If the issue goes to court and the decision is in favor of the borrower such that the loan is unenforceable at the statutory maximum interest rate, the lender will be required to repurchase the loan and the guarantee will be withdrawn permanently. The lender may be required to reimburse the guarantor for any court costs or court-imposed fines or penalties.

Current Stafford Interest Rate

A Stafford loan first disbursed on or after July 1, 1998, has a variable interest rate not to exceed 8.25%, regardless of the period of enrollment or the interest rate on the borrower's previous loans. The interest rate is adjusted annually on July 1, and that rate remains in effect through June 30 of the following year. During periods when the loan is in an in-school, grace, or authorized deferment status, the interest rate is calculated by adding 1.7% to the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1. During periods when the loan is in a repayment or forbearance status, the interest rate is calculated by adding 2.3% to the 91-day Treasury bill rate. [HEA 427A(j); HEA 427A(k)(1) and (2)]

Previous Stafford Interest Rates

Interest rates applicable to Stafford loans first disbursed before July 1, 1998, are listed in the table on the following page.

Some fixed-rate Stafford loans have been converted to variable interest rates in accordance with excess interest rebate provisions of the Higher Education Amendments of 1986 and the Higher Education Amendments of 1992. For more information on these provisions, see section H.2 of appendix H.

6.1.E. Resolving Interest Rate Discrepancies on Stafford Loans

If a lender learns that a Stafford loan has been made at an incorrect interest rate, the lender must notify the borrower, guarantor, and the Department, as appropriate, of the correct rate. The borrower must be notified of a change resulting in an increased rate. The lender may note the change by marking and initialing the guarantee disclosure or by sending a separate notice to the borrower. The guarantor may provide the corrected notice to the borrower on the lender's behalf. In some states, the law requires that the borrower sign a new promissory note reflecting the corrected rate.

▲ Lenders may contact individual guarantors for more information on resolving interest rate discrepancies. See section 1.5 for contact information.

Regardless of whether the borrower agrees to the change, the lender is required to report the correct interest rate to the guarantor, in a format acceptable to the guarantor. Also, the lender must review its servicing records and ensure that reports issued to the Department (such as the ED Form 799) are adjusted to reflect accruals at the corrected rate.

The lender must adjust a borrower's principal and interest amount owed if the borrower is entitled to a lower rate.

STAFFORD LOAN INTEREST RATES

Disbursement/Loan Period/Borrower Characteristics	Interest Rate
First disbursement on/after 7/1/98	*In-school, grace, and deferment periods:* Variable interest rate—equal to the 91-day Treasury bill* rate plus 1.7%, not to exceed 8.25% *Repayment and forbearance periods:* Variable interest rate—equal to the 91-day Treasury bill* rate plus 2.3%, not to exceed 8.25%
First disbursement on/after 7/1/95 but before 7/1/98	*In-school, grace, and deferment periods:* Variable interest rate—equal to the 91-day Treasury bill* rate plus 2.5%, not to exceed 8.25% *Repayment and forbearance periods:* Variable interest rate—equal to the 91-day Treasury bill* rate plus 3.1%, not to exceed 8.25%
First disbursement on/after 7/1/94 but before 7/1/95 for periods of enrollment that include or begin on/after 7/1/94	Variable interest rate—equal to the 91-day Treasury bill* rate plus 3.1%, not to exceed 8.25%
First disbursement on/after 12/20/93 but before 7/1/94 to a borrower with an outstanding PLUS, SLS, or Consolidation loan, but not a Stafford loan	Variable interest rate—equal to the 91-day Treasury bill* rate plus 3.1%, not to exceed 9%
First disbursement on/after 10/1/92 but before 7/1/94 to a new borrower with no outstanding FFELP loans	Variable interest rate—equal to the 91-day Treasury bill* rate plus 3.1%, not to exceed 9%
First disbursement on/after 10/1/92 but before 12/20/93 to a borrower with an outstanding PLUS, SLS, or Consolidation loan, but not a Stafford loan	Original fixed interest rate of 8%. These loans were subject to excess interest rebates and converted to a variable interest rate—equal to the 91-day Treasury bill* rate plus 3.1%, not to exceed 8%.
First disbursement on/after 7/23/92 but prior 7/1/94 to a borrower with an outstanding 7%, 8%, 9%, or 8%/10% Stafford loan	Original interest rate was the same as on the borrower's previous Stafford loans (i.e., a fixed rate of 7%, 8%, 9%, or 8%/10%). These loans were subject to excess interest rebates and converted to a variable interest rate—equal to the 91-day Treasury bill* rate plus 3.1%, with a cap equal to the loan's previous fixed rate (i.e., 7%, 8%, 9%, or 10%).
First disbursement before 10/1/92 for a period of enrollment beginning on/after 7/1/88 to a "new borrower" or a borrower who has an outstanding balance on a PLUS, SLS, or Consolidation loan, but not a Stafford loan	Original interest rate of 8% until 48 months of the repayment period have elapsed and 10% thereafter. These loans were subject to excess interest rebates and must be or have been converted to a variable interest rate—equal to the 91-day Treasury bill* rate plus 3.25%, not to exceed 10%.
First disbursement to a borrower with an outstanding balance on a PLUS, SLS, or Consolidation loan, but not a Stafford loan, for a period of enrollment before 7/1/88	Fixed interest rate of 8%.
First disbursement to a "new borrower" for a period of enrollment on/after 9/13/83 but before 7/1/88	Fixed interest rate of 8%
First disbursement to a "new borrower" for a period of enrollment on/after 1/1/81 but before 9/13/83	Fixed interest rate of 9%
First disbursement to a "new borrower" for a period of enrollment before 1/1/81	Fixed interest rate of 7%

*Based on the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1. All variable interest rates are adjusted annually on July 1.

6.1.F. PLUS Loan and SLS Loan Interest Rates

Previous interest rates applicable to SLS loans are included in this section for lenders that are servicing these loans.

The initial interest rate for each PLUS loan is determined by the date the loan is disbursed.

A lender may choose to charge a borrower an interest rate that is lower than the maximum rate permitted by statute (the statutory rate). If a lower rate is charged, the lender must ensure that reports issued to the Department (such as the ED Form 799) are adjusted. See appendix A for more information on ED Form 799 reporting.

A lender must notify the borrower, at the time a lower interest rate is offered, that the lower interest rate ends on the date a default or ineligible borrower claim is purchased by the guarantor. The lender may provide this information in any format. Documentation of the notice must be maintained in the borrower's file. A lender is encouraged to include this documentation (showing that the borrower was informed that the lower interest rate expires upon claim purchase) with default and ineligible borrower claim files. The lender will be required to provide this documentation if a borrower challenges the guarantor or the Department for charging the applicable statutory maximum interest rate during postclaim interest accrual. If the issue goes to court and the decision is in favor of the borrower such that the loan is unenforceable at the statutory maximum interest rate, the lender will be required to repurchase the loan and the guarantee will be withdrawn permanently. The lender may be required to reimburse the guarantor for any court costs or court-imposed fines or penalties.

Current PLUS Interest Rate

A loan that is first disbursed on or after July 1, 1998, has a variable interest rate, not to exceed 9%. The interest rate is adjusted annually on July 1. The variable rate for each July 1 to June 30 period is calculated by adding 3.1% to the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1.
[HEA 427A(j)(3); HEA 427A(k)(3)]

Previous PLUS and SLS Interest Rates

Interest rates applicable to PLUS loans first disbursed before July 1, 1998, and SLS loans first disbursed before July 1, 1994, are listed in the table below.

PLUS AND SLS LOAN INTEREST RATES

Disbursement/Loan Characteristic	Interest Rate
First disbursement on/after 7/1/98 (PLUS loans only)	Variable interest rate adjusted annually on July 1—equal to the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1 of each year plus 3.1%, not to exceed 9%
First disbursement on/after 7/1/94 but before 7/1/98 (PLUS loans only)	Variable interest rate—equal to the 52-week Treasury bill* rate plus 3.1%, not to exceed 9%
First disbursement on/after 10/1/92 but before 7/1/94	Variable interest rate—equal to the 52-week Treasury bill* rate plus 3.1%, not to exceed 10% for PLUS loans and 11% for SLS loans
First disbursement on/after 7/1/87 but before 10/1/92, or other fixed interest rate PLUS or SLS loans refinanced to secure a variable interest rate	Variable interest rate—equal to the 52-week Treasury bill* rate plus 3.25%, not to exceed 12%
First disbursement on/after 11/1/82 but before 7/1/87	Fixed interest rate of 12%
First disbursement on/after 10/1/81 but before 11/1/82	Fixed interest rate of 14%
First disbursement on/after 1/1/81 but before 10/1/81	Fixed interest rate of 9%

*Based on the bond equivalent rate of the 52-week Treasury bill auctioned at the final auction before the preceding June 1. All variable interest rates are adjusted annually on July 1.

6.1.G.
Processing the Guarantee Disclosure

When loan information is submitted to a guarantor, it will either be approved or denied based on the information provided or information on the guarantor's data base. A denial will occur when the borrower does not meet the basic eligibility criteria for the loan (see chapter 5) or the guarantor's policy. Typically, the borrower, school, and lender are all notified of a denial and how to appeal the decision, if an appeal process exists.

As part of the guarantee process, the guarantor reviews the loan information and makes any necessary adjustments. For example, the guarantor may reduce the loan amount requested if it is higher than the borrower is eligible to receive based on his or her certified academic level.

When the loan is guaranteed, a guarantee disclosure is sent to or generated by the lender. The lender must review this guarantee disclosure for accuracy. If the lender finds that information on the guarantee disclosure is inaccurate, the information must be corrected. The guarantor may allow the lender to make the corrections and notify the guarantor of the changes—or the guarantor may revise and reissue the guarantee disclosure. If the lender is allowed to make the corrections on the guarantee disclosure, the lender must correct both the lender and borrower copies of the disclosure and initial the corrections.

▲ Lenders may contact individual guarantors for more information on guarantee disclosure processing. See section 1.5 for contact information.

6.1.H.
Adjusting the Guaranteed Loan Amount

After the loan is guaranteed, the school may identify a need to change (increase or decrease) a borrower's loan amount or revise the allocation of the student's loans between subsidized Stafford funds and unsubsidized Stafford funds, or both. For instance, a school may determine that the borrower is eligible for additional loan funds, or it may determine that a student is eligible for additional subsidized Stafford funding rather than for the full amount of unsubsidized funds previously certified.

For schools using the common Stafford or PLUS application and promissory note, changes in the loan amount may be made without obtaining a new application and promissory note, provided any increased loan amount will not exceed the amount requested by the borrower on the application and promissory note. If the borrower is eligible for additional loan funds and did not request sufficient funds on the original application, the borrower must submit a new or revised loan application and promissory note, or other written request acceptable to the lender and the guarantor (as an addendum to the note).

For schools using the Master Promissory Note (MPN), changes in the loan amount may be made without obtaining a new MPN, provided the borrower is eligible and the school or lender documents the borrower's request. The school or lender also has the option of requiring the borrower to sign a new MPN.

Subsidized and unsubsidized funds may be reallocated without obtaining a new note. If the loan is made using a common Stafford application and promissory note, the borrower must have requested unsubsidized funds. Such loan adjustments or reallocations may occur before any disbursement is made on the loan, after the first disbursement is made, or even after the final scheduled disbursement is made.

Schools and lenders must ensure that disbursements made in conjunction with loan increases or the reallocation of loan funds are disbursed and delivered according to requirements specified in sections 6.2 and 6.3. However, in some instances a loan adjustment made after the first or subsequent disbursements have been made may result in a single disbursement that exceeds half of the total loan amount. When that excess is clearly documented as a loan increase or reallocation of funds, it is permissible.

A request to increase or decrease loan funds or to reallocate funds may be submitted to the guarantor by either the lender or school, depending on the application process established by the guarantor.

After receiving notice of an adjustment to the loan from either the school or the lender, the guarantor will make the necessary adjustments to the guarantee records. When the lender is advised of loan amount or allocation changes, the lender must make appropriate adjustments to its ED Form 799 and the borrower's account to ensure that the correct amount of fees, interest benefits, and special allowance are billed or repaid. The lender must notify the borrower of the adjusted loan amounts.

▲ Lenders and schools may contact individual guarantors for more information on procedures related to adjusting loan amounts after guarantee. See section 1.5 for contact information.

6.1.I.
Initial Disclosure to the Borrower

At or before the first disbursement of a Stafford or PLUS loan, the lender must provide the borrower with the following initial disclosure information in a written or electronic format:

- The lender's name and the address to which correspondence with the lender and payments should be sent.
- The lender's telephone number and, at the lender's option, an electronic address from which the borrower can obtain additional loan information.
- A statement that the lender may sell or transfer the loan to another party, in which case the address and identity of the party to which correspondence and payments should be sent may change.
- The principal balance.
- The amount of any charges, including the federal origination fee, if applicable, and guarantee fee collected by the lender before or at the time of each disbursement of the loan, and an explanation of whether those charges are being deducted from the loan proceeds or paid separately by the borrower.
- The actual interest rate, including information on how the rate is calculated.
- The annual and aggregate maximum loan amounts that may be borrowed (loan limits).
- A statement that information on the loan, including the date of disbursement and amount of the loan, will be reported to a national credit bureau.
- An explanation of when repayment of the loan is required and when the borrower is required to pay interest that accrues on the loan.
- The minimum and maximum number of years for repayment and the minimum annual payment amount.
- An explanation of any options the borrower may have for consolidating or refinancing the loan.
- A statement that the borrower has the right to prepay all or part of the loan at any time, without penalty.
- A statement describing the circumstances under which the borrower may defer repayment of the principal or accruing interest.
- A statement of the availability of the Department of Defense program for repayment of loans on the basis of military service.
- A statement on the consequences of default, including litigation, national credit bureau reporting, liability for substantial collection costs, federal and state income tax refund offsets, wage garnishments or offset, and ineligibility for additional federal student aid and assistance under most federal benefit programs.
- An explanation of how accepting the loan may affect the student's eligibility for other financial aid.
- An explanation of any costs the borrower may incur in the making or collecting of the loan.
- A statement that the loan proceeds will be transmitted to the school for delivery to the borrower.
- A statement of the cumulative outstanding balance of loans owed to the lender, including the loan applied for, and an estimate of—or information that will allow the borrower to estimate—the projected monthly payment amount based on the cumulative outstanding balance. [§682.205(a)]

In addition to the items listed above, the lender must provide the borrower a separate statement, written in plain English, that summarizes the borrower's rights and responsibilities with respect to the loan and the consequences of defaulting on the loan. This statement must be provided at or before the time of the first disbursement. If the borrower's loan is made using the common Stafford or PLUS application and promissory note, the disclosure information can be found in the application and promissory note materials and the guarantee disclosure. If the borrower's loan is made using a Master Promissory Note (MPN), the Borrower's Rights and Responsibilities form will be provided to the borrower with the MPN. At or before the first disbursement of the loan, the lender will provide the borrower with specific initial disclosure information related to the loan, as outlined in this subsection.

For any subsequent loans made using the multi-year feature of the MPN, the lender is only required to provide the borrower with the Plain English Disclosure information (pending the Department's approval, see appendix F) and the initial disclosure of specific information related to the loan. Both disclosures will be provided at or before the first disbursement of each subsequent loan made under the borrower's MPN. The statements may be provided together or separately.
[DCL GEN-98-25; DCL GEN-99-9]

If the loan amount, interest rate, or fee amount change, the lender must provide the corrected information to the borrower. A guarantor may assist the lender with making corrected disclosures by providing a corrected guarantee disclosure to the lender to forward to the borrower.

6.2 Loan Disbursement by Lenders

Disbursement is the transfer of loan proceeds by the lender to a borrower, school, or escrow agent. Disbursement may be accomplished by checks for individual borrowers, by master checks containing loan proceeds for more than one borrower, or by electronic funds transfer (EFT).
[§682.200]

When making a disbursement, the lender must follow the information supplied by the guarantor on the guarantee disclosure, and must not disburse an amount that exceeds the amount on the guarantee disclosure. Any amount disbursed that exceeds the guaranteed amount will not be insured by the guarantor.

6.2.A. Earliest Date a Loan May be Disbursed

A lender or its disbursing agent must not disburse a Stafford or PLUS loan before obtaining a valid common application and promissory note or MPN, a disbursement schedule provided by the school, and the guarantee disclosure from the guarantor.

The lender may not disburse a Stafford or PLUS loan without a disbursement schedule. The lender must disburse the loan according to the dates provided by the school, which is responsible for establishing a disbursement schedule that complies with federal regulations. If a lender cannot comply with the scheduled dates (for example, the date for the first disbursement has elapsed when the lender receives the guarantee disclosure), the lender may disburse the proceeds on the earliest possible date after the disbursement date requested by the school. The lender may not, under any circumstances, disburse proceeds *earlier* than the school's scheduled dates. For more information on how a school schedules disbursement dates, see subsection 5.8.D.
[§682.207]

Although schools are responsible for establishing a disbursement schedule that provides for disbursements to be made on a payment-period basis, lenders should be aware that federal regulations prohibit the making of a loan's first disbursement earlier than:

- 13 days before the first day of the first payment period for a loan disbursed by EFT or master check.
- 30 days before the first day of the first payment period for a loan disbursed by individual check.
- The 28th day of the first payment period if the student is a first-year undergraduate, first-time borrower and the school is subject to the delayed delivery provisions for such students, and the loan is disbursed by EFT or master check.
- The first day of the first payment period if the student is subject to the delayed delivery provisions and the loan is disbursed by individual check.

If the loan period for a Stafford or PLUS loan consists of one payment period, and the school is required to schedule multiple disbursements (see subsection 6.2.B.), the school must schedule the second or subsequent disbursement so that the disbursement is delivered no earlier than the calendar midpoint between the first and last scheduled days of class of the loan period.

If the loan period for a Stafford or PLUS loan consists of more than one payment period, the earliest date on which a second or subsequent disbursement may be made is:

- 13 days before the first day of any subsequent payment period for a loan disbursed by EFT or master check.
- 30 days before the first day of any subsequent payment period for a loan disbursed by individual check.
  [§668.167(a); §682.207(b)(1)(iii); §682.603(h); §682.604(c)(6)(ii)]

For more information on scheduling disbursements and payment periods, see subsection 5.8.D.

6.2.B. Multiple Disbursement Requirements for Stafford and PLUS Loans

Federal regulations require that a lender disburse each Stafford and PLUS loan according to the disbursement schedule provided by the school (see subsection 5.8.D.). If the school is required to schedule loan disbursement in two or more installments, no installment may exceed one-half of the loan amount. If the date on which a disbursement would be made is on or after the earliest date that the subsequent disbursements could be made, the disbursement amount may be the sum of all disbursements scheduled by the school through that date.
[§682.207(c), DCL GEN-90-33]

Exceptions to Multiple Disbursement Requirements

A school with a cohort default rate of less than 10% for each of the three most recent fiscal years for which information is available may schedule a loan to be disbursed in a single installment, if the loan is for a period of enrollment that is not more than a single semester, trimester, quarter, or for a school without standard terms, not more than 4 months.

A loan made to a student enrolled in a study-abroad program may be made in a single disbursement if the eligible school at which the student will receive course credit for the study-abroad program has a cohort default rate of less than 5%.
[HEA 428G(a)(3)]

A loan made to a student attending a participating foreign school also is exempt from the multiple disbursement requirements and may be made in a single disbursement.
[HEA 428G(e)]

6.2.C. Disbursement of Loan Proceeds by Individual Check

Unless disbursement occurs by electronic funds transfer (EFT) or master check, a Federal Stafford loan must be disbursed in an individual check made payable to the student—or, if required by the guarantor or lender, made copayable to the student and the school. A Federal PLUS loan must be disbursed by a check made copayable to the parent borrower and the school. The lender must provide the borrower's name and social security number on the loan check, and student's name and social security number for PLUS loans. The lender must send checks for Stafford and PLUS loan borrowers directly to the school.
[§682.207(b)(1)(ii)]

Some guarantors require that Stafford loan checks be made copayable to the student and the school. These requirements are noted in appendix C.

The personal endorsement of or other written certification by the borrower is required for Stafford and PLUS loan disbursement checks to be cashed or deposited in a borrower's account at a financial institution. A check made copayable to the borrower and school must be endorsed by both the borrower and the school. The only exceptions are for study-abroad students or students attending a foreign school when the borrower has granted a power of attorney to another individual not affiliated with the school, in which case that individual must endorse the check or authorize the transfer of funds.

In lieu of a personal endorsement, the school may present the loan check to a financial institution for deposit in a borrower's account pursuant to the borrower's written authorization. This practice constitutes endorsement and does not violate the prohibition against the school or any person associated with the school having the borrower's power of attorney. When a Stafford or PLUS loan borrower provides the school with written authorization to deposit loan proceeds into the borrower's personal bank account, the school must retain documentation in the student's file that the authorization was obtained.
[§682.207(b)(1)(vi)(2)]

6.2.D.
Disbursement of Loan Proceeds by Electronic Funds Transfer (EFT) or Master Check

If the school and lender agree, the lender may disburse Stafford and PLUS loan proceeds by EFT or master check. Such a disbursement must be made to an account maintained by the school as trustee for the lender, the guarantor, the Department, and the borrower. The school must obtain the borrower's written authorization before the proceeds are released from the school's account either to the student's account with the school or directly to the student or parent borrower, as applicable. The borrower authorization can be obtained on the common Stafford or PLUS application and promissory note or MPN.
[§682.207(b)]

If the school and lender agree, the lender may disburse loan proceeds by master check from the lender to an account maintained by the school as trustee for the lender.
[§682.207(b)(1)(ii)]

For proceeds disbursed by EFT or master check, the lender must provide the school with a roster (transmittal) listing each borrower's name, social security number, the gross amount of the disbursement, and the net amount of the disbursement after the guarantee and origination fees are deducted. For PLUS loans, the roster also must include the name and social security number of the student for whom the parent is borrowing. This information may be provided to the school electronically or by fax, overnight mail, or courier.
[§682.207(b)(1)(v)]

Proceeds to be disbursed by EFT or master check may not be transferred to the school's account earlier than the disbursement date provided by the school.

Participation in EFT or master check may require an agreement between the school, lender, or guarantor.

▲ Lenders may contact individual guarantors for more information on disbursement by EFT or master check. See section 1.5 for contact information.

6.2.E.
Disbursement for Students in Study-Abroad Programs or Foreign Schools

A student enrolled in a study-abroad program that is approved for credit by the home institution at which the student is enrolled may request disbursement of a Stafford loan by any of the following options:

- Disbursement directly to the student.

- Disbursement to the student's home institution, if the borrower provides power of attorney to a person not affiliated with the school to endorse the check or complete an electronic funds transfer (EFT) authorization.

- Disbursement to the borrower's personal bank account, if the borrower provides the school with a deposit authorization for that purpose.
[§682.207(b)(v)(C) and §668.165(a)(2)]

If a student is enrolled at an eligible foreign school, upon the student's request, proceeds may be disbursed by either of the following options:

- Disbursement directly to the student.

- Disbursement directly to the school, if the student provides a power of attorney to an individual not affiliated with the school to endorse the check or complete an EFT authorization.
[§682.207(b)(v)(D)]

6.2.F.
Consummated and Unconsummated Loans

A lender must be able to distinguish between consummated and unconsummated loans for recordkeeping purposes.

A loan is considered unconsummated if any of the following occurs:

- The first disbursement check for a subsidized Stafford loan is returned uncashed.
- The disbursement check is not negotiated within 120 days of disbursement.
- Loan proceeds disbursed by EFT or master check have not been released from the school's account within 120 days from the date of the disbursement.
- The lender is notified that loan proceeds transmitted to the school by EFT or master check are never released from the school's account.

The lender is not entitled to collect federal interest benefits or special allowance payments for any period of time on an unconsummated loan.
[§682.300(c)(4)]

A Stafford loan is considered consummated if the first disbursement check is cashed or proceeds disbursed by EFT or master check are released from the school's account to the student's school account (for proceeds delivered by EFT or master check)—even if the loan is subsequently paid in full by the borrower or the school within 120 days of disbursement. The lender may collect federal interest benefits and special allowance from the Department through the date the loan is fully repaid. If the full repayment occurs within 120 days of the first disbursement, the lender must obtain a guarantee fee credit from the guarantor and a credit for the origination fee from the Department. The lender must refund the guarantee and origination fees to the borrower's loan.
[§682.202(c); §682.401(b)(10)]

For a loan disbursed before October 1, 1992, the lender was entitled to receive interest benefits and special allowance payments on a loan through the 120th day after the disbursement date, even though the borrower may never have had use of the proceeds. See appendix A for more information on billing for interest benefits and special allowance.

The lender must cancel a disbursement with an effective date that is the same as the first disbursement date if any of the following conditions exist:

- The first disbursement check is returned uncashed.
- Proceeds transferred to the school by EFT or master check are returned by the school, verifying that the proceeds were never credited to the student's account.
- The disbursement check was never cashed.
- Proceeds transferred to the school by EFT or master check are not delivered to the borrower from the school's account. The lender must establish a procedure with the school to determine when proceeds disbursed by EFT or master check are not delivered to the borrower.

The lender must, in all cases, report the cancellation of a disbursement to the guarantor.
[§682.300(c)]

In cases where the lender makes a second and/or subsequent disbursement(s) without the knowledge that the first disbursement was *not* cashed nor released from the school's account, any negotiated disbursement remains valid.

The lender is required to report all unconsummated loans to the guarantor.

When notification is received to cancel a disbursement, the guarantor may automatically cancel any unmade subsequent disbursement(s). However, the lender may have the ability to notify the guarantor not to cancel a subsequent disbursement by requesting this in a format acceptable to the guarantor.

▲ Lenders may contact individual guarantors for more information on procedures for reporting unconsummated loans. See section 1.5 for contact information.

6.2.G. Reissuing a Loan Disbursement

A school may request that a lender reissue loan proceeds for a variety of reasons, which may include, but are not limited to:

- The check is lost.
- The school returns the disbursement and requests that the disbursement amount be decreased and the disbursement reissued.
- The school returns the disbursement and requests that the disbursement be reissued to restart the time clock for delivery restrictions.
- The school returns the disbursement and requests that the lender reissue the disbursement to coincide with the date of the student's scheduled return from an approved leave of absence.

When a school determines that a loan disbursement needs to be reissued, the school must submit the request to the lender so the lender may reissue the disbursement within 90 days from the earlier of the last day of the enrollment period for which the loan is intended or the student's last date of at least half-time enrollment. The lender may reissue a disbursement only upon the request of the school, if the school's request is honored. The lender may reissue a loan disbursement more than 90 days after the last date of the student's eligible enrollment in exceptional cases, so that the student will not be harmed by circumstances beyond his or her control. The request for reissue under this exception should come from both the borrower and the school. The lender should document the exceptional circumstances.

For proceeds originally disbursed as a late disbursement, the lender must reissue the disbursement within 90 days after the date on which the original late disbursement was made. Lenders should see subsection 6.2.H. for more information about late disbursement.

Some guarantors have alternative time frames within which schools are required to request reissues. These time frames are noted in appendix C.

If the reissued disbursement is for the first or subsequent disbursement of a subsidized Stafford loan, the reissue date will be used to determine the interest accrual start date for subsidized interest for that disbursement. If the reissued disbursement is for the first or subsequent disbursement of an unsubsidized Stafford or PLUS loan, the reissue date will be used to determine the interest accrual start date for the borrower's interest for that disbursement. Lenders are responsible for making the appropriate adjustments on ED Form 799. See appendix A for more information on ED Form 799 reporting.

Lenders must maintain documentation of the reason for a reissued disbursement. Such documentation must include both the original disbursement date and the reissue date. The 120-day monitoring requirement outlined in subsection 6.2.F. begins on the date the disbursement is reissued.

6.2.H. Late Disbursement by a Lender

A lender may disburse Stafford or PLUS loan proceeds after the end of the loan period or the date on which the student ceased to be enrolled at least half time only if:

- The school certified the loan application and determined the loan funds will be used to pay educational costs incurred for the period in which the student was enrolled and eligible.
- In the case of a first-year, first-time borrower whose loan is subject to delayed delivery (see subsection 6.3.E., Delayed Delivery Requirement), the student completed the first 30 days of his or her program of study.
- In the case of a second or subsequent disbursement, the student graduated or successfully completed the period of enrollment for which the loan was intended.

When a lender knowingly makes a late disbursement, the lender must include with the loan proceeds a notice to the school indicating that the loan proceeds should be delivered as a late disbursement.
[§682.207(d)]

For information on late delivery requirements for schools, see subsection 6.3.H.

6.2.I.
Effect of Bankruptcy on Loan Disbursement

To prevent a borrower from attempting to obtain a discharge on loans that are undisbursed or partially disbursed at the time the lender is notified of the borrower's filing for bankruptcy, the lender should:

- Make no additional disbursements on any loan for which the borrower applied and that was approved prior to the borrower's bankruptcy filing.
- Request that the school immediately return any disbursements not delivered by the school to the borrower and cancel the returned funds.
- Advise the borrower of the action taken and that he or she may reapply for the loan funds in the same amount that was not disbursed or that was returned by the school.

If the lender cancels any of the undisbursed or undelivered funds because of the bankruptcy action, the lender must also agree to make a new loan for the amount that was canceled or any remaining loan eligibility as determined by the school.

The borrower must complete a new loan application if he or she decides to reapply for loan funds canceled due to the bankruptcy filing. The new application must be certified by the school for the revised eligibility amount. In some cases, the borrower may be required to receive approval from the bankruptcy trustee to incur post-petition debt.

Lenders should refer to subsection 8.2.D. for more information about filing a claim when a borrower files for bankruptcy.

Some guarantors have different requirements regarding the treatment of disbursements when a lender is notified of a borrower's filing for bankruptcy. These requirements are noted in appendix C.

6.3
Loan Delivery by Schools

Loan delivery encompasses a school's processing of Stafford and PLUS loan proceeds and delivery of those proceeds to borrowers. Provisions governing these processes are outlined in this section, 34 CFR Part 668, and 34 CFR Part 682. In 34 CFR 668, Subpart K, the use of the term "disburse" means the same as "deliver loan proceeds" under the FFELP regulations. For purposes of clarity, the *Common Manual* will continue to use the term "disbursement" for lender activities and the term "delivery" for school activities. The function of authorizing payment must be separated from disbursing and delivering proceeds so that no office has responsibility of both functions with respect to any particular student aid under Title IV programs. The two functions must be carried out by at least two organizationally independent individuals who are not members of the same family.
[§668.16(d)]

A school must ensure that it does not deliver the proceeds of a Stafford loan to a student who has lost his or her eligibility to receive the loan, or for whom the school never certified a loan. A school must ensure that it does not deliver the proceeds of a PLUS loan to a student (to whom the parent borrower authorized the delivery of proceeds) if the student and/or the parent borrower has lost his or her eligibility to receive the loan, or if the school never certified a loan.

6.3.A. Verification of Satisfactory Academic Progress

Federal regulations require that a school measure a student's satisfactory academic progress in accordance with the school's published satisfactory academic progress policy before delivering the loan proceeds. At some schools, satisfactory academic progress verification is performed before the delivery of each disbursement, while at others, satisfactory academic progress may be assessed at specific times during the academic year, such as at the beginning of each term.
[§668.32(f)]

A school's satisfactory academic progress standards must be applied consistently, and must include both a qualitative and a quantitative measure. A maximum time frame for program completion and a minimum quality standard, such as grade point average, must be established. A student's quantitative progress must be assessed each academic year, at a minimum. Federal regulations permit a school to establish its own maximum time frame for program completion, provided the school's time frame does not exceed 150% of the completion time normally allotted for such a program.
[§668.16(e); §668.32(f)]

In measuring satisfactory academic progress for subsequent disbursements, the school is not required to develop a system that is separate from the system the school already has established for verifying progress for subsequent disbursements of other Title IV Programs. However, the progress standards for Title IV aid recipients must be at least as restrictive as those used for students not receiving aid.

6.3.B. Overawards

An overaward may occur after a school certifies a student's eligibility for a Stafford loan. An overaward occurs when the student receives additional financial assistance or the student's expected family contribution (EFC) increases, which results in a change in the student's eligibility for the previously certified Stafford loan. Up to $300 of Federal Work Study earnings are excluded from the determination of an overaward. The school must reduce or eliminate an overaward using one of the following options:

- Use the student's unsubsidized Stafford, PLUS, state-sponsored, or private loan to cover the EFC, if not already done.

- Return the entire undelivered disbursement to the lender or escrow agent and provide the lender with a written statement describing the reason for the return of proceeds and the student's revised financial need. The school should request that the lender redisburse the revised amount and, if necessary, revise subsequent disbursements to eliminate the overaward.

- Return to the lender the portion of the disbursement for which the student is ineligible and provide the lender with a written statement explaining the return of proceeds.
  [§682.604(h) and (i)]

▲ Schools may contact individual guarantors for more information on procedures for reducing or eliminating overawards. See section 1.5 for contact information.

If a school determines that an overaward exists, it must contact the lender or guarantor promptly to request an adjustment to the amount of each remaining disbursement. If all disbursements of the loan have been delivered to the student before the overaward occurs, no adjustment is required under current federal regulations. However, the school may adjust campus-based aid, as appropriate, to offset the student's receipt of Title IV funds.
[§682.604(h)]

Again, overawards are applicable only with respect to Stafford loans; they do not apply to PLUS loans or loans made to students enrolled in eligible foreign schools.

6.3.C. Notices and Authorizations

Notices

Prior to delivering any Title IV funds to the student or parent borrower, the school is required to send a notice to the student providing information about the amount of funds that the student or his or her parent can expect to receive under each program in the FFELP. Regulations require this notice (e.g., award letter) to be sent only to the student. The notice must include:

- The amount of proceeds the student or his or her parent can expect to receive for each loan type. For Stafford loans made using a Master Promissory Note (MPN), the school's award letter may include proposed loan amounts and loan types. It may also include instructions to the borrower either to accept the aid offered by responding to the school or to take action only if requesting a cancellation or reduction of the loan amount offered (see notification and confirmation requirements below).

- When the proceeds will be delivered and by what method.

- Which proceeds are from subsidized and unsubsidized Stafford loans, PLUS loans, and other Title IV programs.
  [DCL GEN-98-25; DCL GEN-99-9]

The school must notify the student or parent borrower if the school credits a student's school account with Stafford or PLUS loan proceeds. This notice must be issued no earlier than 30 days before and no later than 30 days after the school credits the student's account. The notice must include:

- The date and amount of the disbursement.

- For proceeds disbursed by EFT or master check, a statement explaining the student or parent borrower's right to cancel all or a portion of the loan or loan disbursement and have the proceeds returned to the lender.

- The method and date by which the student or parent borrower must notify the school that he or she wishes to cancel all or a portion of the loan or loan disbursement.

The notice from the school may be written or electronically transmitted. However, if sent electronically, the school must require the student or parent borrower to confirm receipt of the notice and must maintain a copy of the notice confirmation.

A student or parent borrower must inform the school if he or she wishes to cancel all or a portion of a loan or loan disbursement. The school must return the loan proceeds, cancel all or a portion of the loan or loan disbursement as applicable, or do both if the school receives a cancellation request in either of the following time frames:

- Within 14 days after the date the school sends the notification advising the student or parent borrower the school has credited the student's account at the school.

- By the first day of the payment period, if the school sends the notification more than 14 days prior to the first day of the payment period.

If a student or parent borrower requests cancellation of the loan after the 14-day period or the first day of the payment period, as applicable, the school may, but is not required to, return the loan proceeds, cancel all or a portion of the loan or loan disbursement, or do both.

If, prior to the receipt of the borrower's cancellation request, the school delivered all or a portion of the loan proceeds directly to the borrower or the student, the school is responsible only for canceling and returning that portion of the loan proceeds that the school credited to the student's school account to pay authorized charges. The borrower is responsible for returning to the lender any additional amount.

A school is required to inform a student or parent borrower, either in writing or through electronic transmission, of the outcome of any cancellation request.
[§668.165(a)(4) and (5)]

Notification and Confirmation Requirements for the Multi-Year Feature of the MPN

The school and lender, or guarantor on behalf of the school and lender, must ensure and document that a process is in place for providing either confirmation or notification for subsequent loans made using the multi-year feature of the MPN. A notification or confirmation process informs the student of the proposed loan types and amounts being awarded for the loan period and should increase the borrower's understanding of his or her loan obligations. The notification or confirmation process may be part of or may supplement the existing required notices and disclosures described in this subsection. Although the initial disclosure constitutes a notification, it must be supplemented by another notification or confirmation process by the parties described below.

> *Notification* is a process by which the school, lender, or guarantor (on behalf of the school or lender) notifies the borrower of the proposed loan types and amounts. The borrower is required to take action only to reject or adjust the type or amount of the loan.
>
> *Confirmation* is a process by which the school, lender, or guarantor (on behalf of the school or lender) advises the borrower of the proposed loan types and amounts. The borrower must take action to confirm the loan type or request a specific loan amount. A school, lender, or guarantor (on behalf of the school or lender) may establish confirmation for the entire loan or may request that the borrower confirm each disbursement of the loan.
> [DCL GEN-98-25; DCL GEN-99-9]

FFELP WRITTEN NOTIFICATION/AUTHORIZATION REQUIREMENTS

Before a school delivers any Stafford or PLUS loan proceeds, the school must notify the student of the amount of proceeds that the student or his or her parent can expect to receive, when and by what method the proceeds will be delivered, and which proceeds are from subsidized Stafford, unsubsidized Stafford, or PLUS loans.

Activity	Additional Notification Required	Authorization Required
Deliver loan proceeds received by EFT or master check [§682.604(c)(3)]	No	Yes[1]
Credit loan proceeds to student's account for tuition, fees, and room and board [§668.165(a)(1) and (2)]	Yes[3]	No
Credit student's account for other educationally related costs (current year only) [§668.164(d)(2)]	Yes[2, 3]	Yes[2]
Deliver loan proceeds to borrower's personal bank account [§668.165(b)(1)]	No	Yes[2]
Hold credit balance on behalf of the student or parent borrower for budgetary purposes [§668.165(b)(1)]	No	Yes[2]
Pay minor prior-year charges [§668.164(d)(2)]	No	Yes

1 The required authorization is included on the MPN. For loans made using the common Stafford or PLUS application and promissory note, the required authorization must be collected on the application and promissory note or, if on a separate written authorization, within 30 days before the first day of classes for the period of enrollment for which the loan is intended.

2 School must allow student (or parent, if applicable) to cancel or modify his/her written authorization.

3 If the school credits the student's account at the school, the school is also required to notify the student or parent borrower of the credit no earlier than 30 days before and no later than 30 days after the date the school credits the student's account with loan proceeds. The notification must advise the student or parent borrower that he or she may cancel all or a portion of the loan or loan disbursement.

Authorizations

A school must have written authorization from a student or parent borrower, as applicable, to perform the following activities:

- Deliver Stafford or PLUS loan proceeds received by EFT or master check to the student or parent borrower.
- Use the Stafford or PLUS loan proceeds to pay for current-year charges other than tuition, fees, and contracted room and/or board (see subsection 6.3.E.).
- Deliver Stafford or PLUS loan proceeds to the borrower's personal bank account.
- Hold a credit balance on behalf of the student or parent borrower, unless prohibited by the Department.
- Use Stafford or PLUS loan proceeds for the current year to pay for minor prior-year charges (see subsection 6.3.E.).
  [§668.164(c)(3); §668.164(d); §668.165(b)]

When obtaining an authorization for any of these activities, a school may not require or coerce the student or parent borrower to provide the authorization. In addition, the school must allow the student or parent borrower to cancel or modify the authorization at any time. The school also must clearly explain to the borrower how the school will carry out the activity.
[§668.165(b)(2)(i) through (iii)]

The authorization is valid for the entire period during which the student is enrolled at the school, unless the authorization is canceled or modified by the student or parent borrower.

Authorization Modifications and Cancellations

If the student or parent borrower requests that an authorization be modified, the modification becomes effective on the date the school receives the request.
[§668.165(b)]

If the student or parent borrower requests cancellation of his or her authorization to use loan proceeds to pay authorized charges, the school may use those proceeds to pay only those charges incurred by the student prior to the date the school received the cancellation.

If a student or parent borrower cancels the authorization for the school to hold a credit balance, the school must pay those proceeds directly to the student or parent borrower as soon as possible, but no later than 14 days after the date the school receives the cancellation.
[§668.165(b)(4)(iii)]

For more information on when a borrower must provide written authorization to the school, see the table on the following page.

Borrower Authorization for Release of EFT/Master Check Disbursements

For Stafford loans made using a Master Promissory Note (MPN), the school is not required to obtain a separate borrower authorization statement to permit the transfer of loan proceeds received by EFT or master check to the student's account. The authorization is included on the MPN and the 30-day restriction for collection of the authorization does not apply.
[DCL GEN-98-25; DCL GEN-99-9]

For Stafford and PLUS loans made using a common application and promissory note, the borrower must provide written authorization for the release of proceeds received by EFT or master check from the school's account. The borrower's signature on the authorization cannot be delegated to any individual or entity through power of attorney or other means. The only exception is for a student enrolled in a study-abroad program or eligible foreign school, who may provide a power of attorney to an individual not affiliated with the school (see subsection 6.2.E.).

The written authorization may be obtained on the common application and promissory note or on a separate form. If obtained on a separate form, the authorization may not be obtained earlier than 30 days before the first day of classes for the period of enrollment for which the loan is intended.

If the authorization is obtained on the common application and promissory note, no time restriction applies. The authorization must be obtained at or before the release of the first disbursement.
[§682.207(b); §682.604(c)(3)]

For authorizations obtained on separate forms, at least one authorization form must be obtained for each loan. However, authorizations for multiple loans (such as a subsidized and an unsubsidized Stafford loan) may be obtained at the same time. One authorization form may serve for all disbursements of a multiply disbursed loan.

The school or lender (on the school's behalf) may obtain the borrower's written authorization using either of the following methods:

- Obtain one authorization form per disbursement, if the borrower signs each form.

- Obtain one authorization form per loan covering all disbursements of the loan, where the borrower signs once on the form.

One copy of the signed authorization form may be given to the borrower, and a copy must be retained by the school.

If the lender obtains the authorization form directly from the borrower on the school's behalf, the lender must send the original form to the school. The lender may choose to retain or request a copy of the signed form.

After receiving a borrower's written authorization, the school may credit the registered student's account or directly deliver the proceeds to the registered student according to the prompt delivery guidelines outlined in subsection 6.3.E.
[§682.604(c)]

If the borrower fails to authorize the release of proceeds received by EFT or master check and the proceeds are deposited in the school's account, the school may issue an individual check to the borrower. The school must obtain the borrower's endorsement on the check, apply the proceeds to cover the student's tuition, fees, room and/or board, and release any credit balance to the borrower in accordance with the time frames specified in subsection 6.3.F.

6.3.D.
Receipt of Loan Proceeds

Stafford or PLUS loan proceeds received by a school are held in trust for students, lenders, guarantors, and the Department. The school must exercise the care and diligence required of a fiduciary in maintaining these funds.

Generally, a school is not required to maintain a separate restricted account for Stafford or PLUS loan proceeds and may commingle Stafford or PLUS loan proceeds with other Title IV proceeds as well as with non–Title IV proceeds.
In maintaining Title IV proceeds, the school must do one of the following:

- Ensure that the name of the account contains the phrase "federal funds."

- Notify the bank or investment company of the accounts that contain Title IV proceeds and retain a record of that notice. In addition, a nonpublic school must file a UCC-1 statement with the appropriate state or municipal government entity disclosing that the account contains federal funds and maintain a copy of that statement.

In addition, the school must:

- Maintain Title IV proceeds in a bank or investment account that is federally insured or secured by collateral of value reasonably equivalent to the amount of those proceeds.

- Maintain accounting and internal control systems that identify the cash balances of each Title IV program that is included in the school's bank or investment account as readily as if those program funds were maintained in a separate account.

- Maintain accounting and internal control systems that identify the earnings on Title IV program funds maintained in the school's bank or investment account.

- Comply with the recordkeeping and reporting requirements in subpart B of the Student Assistance General Provisions of the federal regulations.

- Comply with applicable program regulations.
[§668.163]

If the school fails to comply with any of these requirements or the Department places the school on the reimbursement payment method, the school may be required to maintain Stafford or PLUS loan proceeds in a separate account.
For more information on requirements for schools that have been placed on the reimbursement payment method, see section 5.8.
[§668.167(d)(3)(ii)]

6.3.E. Delivery of Proceeds

Delivery Requirements

Before a school delivers FFELP proceeds, it must notify the student of the amount of proceeds the student or parent borrower can expect to receive, and how and when those proceeds will be delivered. This notice must indicate which proceeds are from subsidized loans and which are from unsubsidized loans. For more complete information on borrower notification and authorization requirements, see subsection 6.3.C.
[§668.165(a)]

The school must hold Stafford and PLUS loan proceeds until the student is enrolled in classes for that payment period. (For more information on payment periods, see subsection 5.8.D.) The school must deliver loan proceeds on a payment period basis in substantially equal installments, with no installment exceeding one-half of the loan amount. For a loan period that consists of more than one payment period, the school must deliver loan proceeds at least once in each payment period. If a loan period consists of only one payment period, the school must deliver loan proceeds at least twice during that payment period.
[§668.164(b)(1); §682.604(c)(6) and (9)]

The time frame within which schools must deliver or return loan proceeds covers three separate periods:

- **Initial Period** — A period of time a school has to deliver loan proceeds directly to the student or parent borrower, or to credit the student's account at the school. The length of this period of time is determined by whether the proceeds were received by the school by EFT, master check, or individual check.

- **Conditional Period** — A 10-business-day delivery period after the last day of the initial period. A school may only disburse funds during this period if the school expects the student to complete the required number of clock or credit hours in a preceding payment period, or the school expects the student to meet all FFELP eligibility requirements within the conditional period.

- **Return Period** — A 10-business-day period following the initial or conditional period, as applicable, during which the school must return undelivered proceeds to the lender. If, during the return period, the school determines that the student has become eligible to receive the loan proceeds, the school may deliver the proceeds rather than return them to the lender, provided the delivery is made on or before the last day of the return period.
  [Department of Education Policy Bulletin dated June 2, 1997]

For Stafford loan proceeds disbursed by an individual check that requires the endorsement of the borrower only, the school must deliver the check to the borrower within the initial period of 30 days after the school's receipt of the check.

For Stafford or PLUS loan proceeds disbursed by an individual check that requires the endorsement of both the borrower and the school, the school must do one of the following within the initial period of 30 days after the school's receipt of the check:

- In the case of the initial disbursement, endorse the check on its own behalf and, after the student has registered, deliver it to the student or parent borrower, as applicable.

- Obtain the borrower's endorsement on the check, endorse the check on its own behalf, and, after the student has registered, credit the student's account.

For Stafford or PLUS loan proceeds disbursed by EFT or master check, the school must do one of the following:

- Deliver the proceeds directly to the student or parent borrower within the initial period of 10 business days after the school's receipt of the proceeds.
  [§668.167(b)(1)(ii); §682.604(c)(3)]

- Credit the student's account within the initial period of 10 business days after the school's receipt of the proceeds and deliver to the student or parent borrower the remaining loan proceeds in accordance with the time frames specified in subsection 6.3.F.
  [§668.164(a); §668.167(b)]

Loan proceeds disbursed by EFT or master check that are received by the school on or after July 1, 1999, must be delivered within the initial period of 3 business days after receipt.

The school is expected to deliver the loan proceeds within the preceding time frames. The school may delay delivery of loan proceeds for a conditional period of 10 business days after the last day of the initial period if, within this conditional period, the school expects the student to complete the required number of clock or credit hours in a preceding payment period or the school expects the student to meet all FFELP eligibility requirements. The school is encouraged to document the reason for holding loan proceeds for delivery within this conditional period. This provision does not apply to students for whom verification has not been completed or financial aid information (i.e., financial aid transcript or equivalent NSLDS information) is missing.

If the school does not deliver loan proceeds within the initial or conditional period, the school must return the proceeds to the lender promptly, but no later than 10 business days after the last day of the initial or conditional period. If, during the return period, the school determines that the student has become eligible to receive the loan proceeds, the school may deliver the proceeds rather than return them to the lender, provided the delivery is made on or before the last day of the return period.

For purposes of returning undelivered proceeds to the lender, the term "promptly" means that a school may not delay initiating and completing its normal return process. "Returning the proceeds promptly, but no later than 10 business days" means that the school must either mail a check or initiate an electronic funds transfer to the lender by the close of business of the last day of the return period. [Department of Education Policy Bulletin dated June 2, 1997]

The table below provides some examples of time frames for returning loan proceeds to the lender.

EXAMPLES OF TIME FRAMES FOR RETURNING LOAN PROCEEDS

	Example 1	Example 2	Example 3
Receipt of proceeds	School receives proceeds by individual check on July 8.	School receives proceeds by EFT on July 8.	School receives proceeds by individual check on July 8.
Latest initial delivery date	Latest initial delivery date in this case is August 7 (30 days after receipt).	Latest initial delivery date in this case is July 22 (10 business days after receipt).	Latest initial delivery date in this case is August 7 (30 days after receipt). Student does not meet eligibility requirements. School delays delivery of loan proceeds for conditional period of 10 business days because the school expects student to meet the eligibility requirements during the conditional 10-business-day period. The last day of the conditional period of 10 business days is August 21.
Reason for returning proceeds	Student advises school he or she does not want proceeds.	Student advises school he or she does not want proceeds.	Student fails to meet eligibility requirements in the conditional 10-business-day period.
Deadline for returning proceeds	School must return proceeds no later than August 21 (10 business days after latest initial delivery date).	School must return proceeds no later than August 5 (10 business days after latest initial delivery date).	School must return proceeds no later than September 5 (10 business days after last day of the conditional period, excluding the Labor Day holiday). Note: If, during the return period, the school determines that the student has become eligible to receive the loan proceeds, the school may deliver the proceeds rather than return them to the lender, provided the delivery is made on or before the last day of the return period.

If the Department has placed the school on the reimbursement payment method, the school may delay the delivery of proceeds disbursed by EFT or master check for an additional 30 days after the initial 10-business-day delivery period (or the initial 3-business-day delivery period for proceeds received by the school on or after July 1, 1999). This extra time will allow the school to complete any additional administrative requirements that the Department has prescribed as part of the reimbursement payment method. For additional information on requirements for delivery of loan proceeds, see section 5.8.
[§668.167(c) and (d)]

If the loan period consists of only one payment period, the school may not deliver a second or subsequent disbursement earlier than the calendar midpoint between the first and last scheduled days of class for the loan period.

The school may not deliver a second or subsequent disbursement earlier than 10 days before the first day of any payment period for an eligible program that measures academic progress in credit hours and that uses semesters, trimesters, or quarters.

The school may not deliver a second or subsequent disbursement for an eligible program that measures academic progress in credit hours and that does not use semesters, trimesters, or quarters, until the later of:

- The calendar midpoint between the first and last scheduled days of class of the loan period.

- The date the student completes one-half of the academic coursework in the loan period.

The school may not deliver a second or subsequent disbursement for an eligible program that measures academic progress in clock hours, until the later of:

- The calendar midpoint between the first and last scheduled days of class for the loan period.

- The date the student completes one-half of the clock hours in the loan period.
  [§668.164(f); §682.604(c)(6) through (8)]

In determining whether the student has completed clock hours in a payment period, a school may include clock hours for which the student has an excused absence if the school has a written policy that permits excused absences and the number of excused absences does not exceed the lesser of:

- The number of excused absences permitted under the policy of the school's accrediting agency.

- The number of excused absences permitted under the policy of any state agency that licenses the school or legally authorizes the school to operate in the state.

- 10% of the clock hours in the payment period.
  [§668.164(b)(3)]

If the student fails to register, enroll, maintain at least half-time enrollment, or maintain satisfactory academic progress, or if the student is on an unapproved leave of absence or fails to return from an approved leave of absence, the school must meet the deadlines required for returning the loan proceeds to the lender (see subsection 6.3.G.)

For more information on the earliest date that loan proceeds may be delivered, see "Early Delivery" later in this subsection.

Delivery Methods

A school may deliver loan proceeds using any of the following methods:

- Crediting the proceeds to the student's account at the school.

- Issuing a check or other instrument to the borrower that requires endorsement or certification. The school may issue a check by releasing or mailing it to the borrower or by notifying the borrower that it is available for immediate pickup.

- Releasing or mailing to the borrower a check that has been provided by a lender.

- Initiating an electronic funds transfer to a bank account designated by the student or parent borrower, in which case the school must obtain authorization from the borrower, as applicable.

- Dispensing cash for which a school obtains a signed receipt from the student or parent borrower.
  [§668.164(a) and (c)]

To help prevent fraud, the school is encouraged to verify the student's identity by requiring at least one form of identification with a photograph before delivering the loan proceeds directly to the borrower.

Crediting Student Accounts

A school may credit a student's account with FFELP loan proceeds to satisfy the following current-year charges without obtaining the student or parent borrower's authorization:

- Tuition and fees.
- Room and/or board, if the student contracts with the school for room and/or board.

After obtaining the student's authorization, or the parent's authorization in the case of a PLUS loan, a school may credit a student's account with FFELP loan proceeds to pay the following charges:

- Additional current-year charges incurred for educationally related activities.
- Minor prior-year charges of less than $100.
- Prior-year charges of $100 or more, provided the school has determined that the payment of the prior-year charges does not, or will not, prevent the student from paying his or her current-year education costs. [§668.164(d)]

For more information on required borrower authorizations, see subsection 6.3.C.

Early Delivery

The school may deliver a registered student's loan proceeds before the first day of classes (unless the student is subject to delayed delivery) after verifying that the student is registered at least half time and, for a continuing student, is maintaining satisfactory academic progress.

If the student is enrolled in a credit-hour program that is offered in semester, trimester, or quarter academic terms, the earliest a school may directly pay or credit the account of a registered student not subject to delayed delivery, or pay the parent borrower in the case of a PLUS loan, is 10 days before the first day of the payment period.

If the student is enrolled in a clock-hour program or a credit-hour program that is not offered in semester, trimester, or quarter academic terms, the earliest a school may directly pay or credit the account of a registered student who is not subject to delayed delivery, or pay the parent borrower in the case of a PLUS loan, is the later of:

- 10 days before the first day of the payment period.
- The date the student completes the previous payment period for which the student received FFELP proceeds. [§668.164(f)]

Refer to "Delivery Requirements" in this subsection for additional provisions related to second or subsequent disbursements.

When the school is applying school funds in advance of the receipt of FFELP proceeds, and the school credits a student's account with an estimated amount earlier than 10 days before the first day of the payment period, and before receiving loan proceeds from the lender, the Department will consider the loan proceeds to have been delivered on the 10th day before the first day of the payment period. If the school does not record the advance funds as an estimated amount, the Department considers the delivery to have occurred on the date the school recorded the credit to the student's account at the school. [§668.164(a)(2)]

Delayed Delivery Requirement

Unless exempt (see following paragraph), a school must not deliver the first disbursement of a Stafford loan to a first-year undergraduate student who is a first-time borrower (that is, a student who has not successfully completed the first year of the program of study in which he or she is currently enrolled and who has not previously received a Stafford or SLS loan) until the 31st day of the student's first payment period. Delivery includes crediting proceeds to the student's account as well as delivering proceeds directly to the student. Before the delivery of proceeds, the school must confirm the student's eligibility.

Schools that have a cohort default rate of less than 10% for each of the three most recent fiscal years for which data is available are exempt from the requirement to delay the delivery of loan funds to first-year undergraduates who have not previously borrowed Stafford or SLS loans. These schools must establish disbursement schedules for these students according to all other provisions regarding the disbursement of loan funds, and must deliver those funds according to normal delivery rules.

When the school is applying school funds in advance of the receipt of FFELP proceeds, and the school credits a student's account with an estimated amount earlier than the 31st day of the first payment period, and before receiving loan proceeds from the lender, the Department will consider the loan proceeds to have been delivered on the 31st day. If the school does not record the advance funds as an estimated amount, the Department considers the delivery to have occurred on the date the school recorded the credit to the student's account at the school.
[§668.164(a)(2) and (f)(3); §682.604(c)(5)]

Delivery of Late Disbursement

For loan proceeds issued as late disbursements, the school is required to deliver the proceeds to the borrower no later than 90 days after the earlier of the end of the loan period or the date on which the student ceased to be enrolled at least half time.
[§668.164(g)(3)]

For more information on late disbursement and late delivery, see subsections 6.2.H. and 6.3.H., respectively.

Delivery Restrictions

Prior to delivering each disbursement of the loan, the school must confirm that the student has maintained continuous eligibility for the loan from the beginning of the loan period certified.
[§668.164(b); §682.604(b)(2)(i)]

A school may neither credit a student's account nor deliver loan proceeds to the student or parent borrower while the student is on an approved leave of absence. If the student returns from an approved leave of absence on at least a half-time basis within 10 business days of the school's receipt of loan proceeds by EFT or master check, or within 30 days of the school's receipt of loan proceeds by individual check, the school may credit a student's account or deliver loan proceeds to the borrower. If the school returns loan proceeds received while the student is on an approved leave of absence, the school may request that the lender reissue those loan proceeds to coincide with the student's scheduled return from the approved leave of absence. For more information on the delivery of loan proceeds to a student on an approved leave of absence, see section 4.5.
[§668.167(b); §682.604(c)(4)]

If the school is notified by the lender of a bankruptcy action and is instructed to return any Title IV loan funds that have not been released to the borrower, the school must immediately return any undelivered funds to the lender. In addition, if the school receives notification that a Stafford or PLUS borrower has filed a bankruptcy action after the school certified the loan application but before the funds have been delivered to the borrower, the school should return any undelivered funds to the lender. The school must include an explanation that the funds are being returned because the borrower has filed for bankruptcy and must attach a copy of any documentation it possesses regarding the bankruptcy. The school is *not* required to ask borrowers, as part of the loan certification or delivery process, whether they have filed for bankruptcy.

If, before the delivery of the proceeds of a disbursement to the student, the student temporarily ceases to be enrolled at least half time, the school may deliver the proceeds of that disbursement and any subsequent disbursement to the student if the school determines and documents in the student's file all of the following:

- That the student has resumed enrollment on at least a half-time basis.
- The student's revised cost of attendance.
- That the student continues to qualify for the entire amount of the loan, notwithstanding any reduction in the student's cost of attendance caused by the student's temporary cessation of enrollment at least half time.
[§682.604(b)(2)(iv)]

The school may not deliver Stafford or PLUS loan proceeds to a student or parent of a student for whom financial aid information from previously attended eligible schools is required until that information is obtained either through a financial aid transcript or the National Student Loan Data System (NSLDS), unless the school the student previously attended meets one of the following criteria:

- The school has closed, and information on the student's receipt of Title IV program assistance for attendance at that school is not available.
- The school is not located in a State.
- The school provides the delivering school with written certification that the information requested pertains to years for which the school is no longer required to keep records.

The school may not deliver the proceeds before the verification process is complete, if verification is required (see section 5.6). If the school does not receive the required financial aid information, or if the student does not complete the verification process within 45 days from the date the school receives the proceeds, the school must return the proceeds to the lender promptly, but no later than 10 business days after the last day of the 45-day period. If, during the 10-business-day return period, all financial aid information is received or the verification process is completed, the school may deliver the proceeds rather than return them to the lender, provided the delivery is made on or before the last day of the return period.

A school must receive approval from the Department before delivering Stafford or PLUS funds in either of the following cases:

- The Department places the school on either the reimbursement or the cash monitoring payment method.
- The school participates solely in the FFELP and the Department has determined that there is a need to monitor the school's participation in that program. [§668.19(a)(3) and (4); §668.58(a) and (c); §668.167(b), (d), (e), and (f); §682.604(a)(3); Department of Education Policy Bulletin dated June 2, 1997]

6.3.F. Credit Balances

Delivering Credit Balances

Any time the school delivers Stafford or PLUS loan proceeds by crediting a student's school account and the total amount of funds credited exceeds the amount of the student's tuition and fees, room and/or board, and other authorized charges, the school must pay the final credit balance directly to the student or parent borrower as soon as possible, but no later than 14 days after one of the following:

- The first day of the payment period if the credit balance occurs on or before the first day of the payment period.
- The date the credit balance occurs if the credit balance occurs after the first day of the payment period.
- The date the school receives notice from the student or parent borrower to cancel his or her authorization to have the school manage the credit balance. [§668.164(e); §668.165(b)]

Holding Credit Balances

Unless prohibited by the Department under reimbursement payment method provisions, a school may hold a borrower's Stafford or PLUS loan proceeds as a fiduciary for the benefit of a student if those proceeds represent a credit balance that would otherwise be paid directly to the student or parent borrower. The borrower must authorize the school to retain the credit balance to assist the student in managing the funds. If the school received written authorization to hold a credit balance for the student, the school must perform the following activities:

- Identify the student and the amount of funds the school holds for that student in a subsidiary ledger account designated for that purpose.
- Maintain at all times cash in its bank account in an amount equal at least to the amount of the funds the school holds for the student.
- Advise the borrower that he or she may cancel or modify this authorization at any time (see subsection 6.3.C.).
- Pay any remaining loan balance to the student or parent borrower no later than the end of the loan period. [§668.165(b)]

For more information on obtaining borrower authorizations, see subsection 6.3.C.

The school may retain any interest earned on the student's funds.

6.3.G. Return or Refund of Loan Proceeds

Loan proceeds must be returned to the lender if the school is unable to deliver them or if the school is unable to document that the student attended classes during the payment period for which the loan is intended. If the school delivers the loan proceeds on behalf of a student who fails to complete the period of enrollment for which the loan is intended, the school must determine if a refund of loan proceeds is due the lender. See section 4.7 for more information on refund requirements.

Return of Proceeds

If the school is unable to deliver loan proceeds to the borrower within the time frames specified in subsection 6.3.E., the school must return the loan proceeds to the lender promptly, but no later than 10 business days after the last day of the initial or conditional period, as applicable. This period is referred to as the return period. For more information on the initial and conditional periods for delivery of proceeds, see subsection 6.3.E.

If a student does not register for the payment period for which a loan is made, or a registered student withdraws, is expelled prior to the first day of classes, or fails to maintain at least half-time enrollment, the school must return the undelivered loan proceeds to the lender promptly, but no later than:

- 20 business days (10-business-day initial period, plus 10-business-day return period) after the school's receipt of proceeds disbursed by EFT or master check (13 business days after the school's receipt of proceeds on or after July 1, 1999).

- 30 days (initial period) plus 10 business days (return period) after the school's receipt of proceeds disbursed by individual check.

For purposes of returning undelivered proceeds to the lender, the term "promptly" means that a school may not delay initiating and completing its normal return process. "Returning the proceeds promptly, but no later than 10 business days" means that the school must either mail a check or initiate an electronic funds transfer to the lender by the close of business of the last day of the return period. [Department of Education Policy Bulletin dated June 2, 1997]

If, for any other reason, the school is unable to document that the student attended classes during the payment period for which the loan is intended, the school must notify the lender of the student's withdrawal. Within 30 days of making this determination, the school must return any loan proceeds credited directly to the student's account and any proceeds delivered to the student or parent borrower and subsequently paid to the school.

If loan funds have been delivered to or on behalf of a student who did not attend classes during the payment period for which the loan is intended, the borrower may be considered ineligible for those funds. The determination of whether the ineligibility is due to borrower, school, or lender error is contingent upon when the funds were delivered.

If a school delivers loan proceeds to or on behalf of a student who did not attend classes during any payment period, the borrower is ineligible for those funds due to school error. The school must promptly repay the ineligible funds to the lender. The amount paid to the lender must include the ineligible amount disbursed plus any outstanding accrued interest due to the lender, but must not include any payment or prepayment made by the borrower prior to the date the school repays the ineligible funds. The school also must repay to the Department any interest and special allowance benefits paid to the lender from the date of disbursement through the date the school repays the funds. If the school refunds the interest and special allowance to the lender, the lender must make an appropriate adjustment on its next quarterly ED Form 799. If the school is required to repay the entire loan amount, the school may request that the lender assign the original promissory note to the school at the time the school returns the ineligible loan funds to the lender.

If a school delivers loan funds to or on behalf of an otherwise eligible student during the 10-day period prior to the beginning of the enrollment period, and the student does not attend any classes during the enrollment period, ceases to be enrolled at least half-time, or is expelled prior to the start of the payment period, the borrower is ineligible for the funds due to borrower error. In this case, the school must notify the lender of the borrower's receipt of ineligible funds (see subsection 8.1.M. for lender servicing requirements for ineligible loans). The school will not be assessed any liability for delivering loan funds in this instance unless the school knew or should have known that the borrower was ineligible to receive the funds at the time they were delivered.

If a school delivers loan funds to or on behalf of an otherwise eligible student during the 10-day period prior to the first day of a second or subsequent payment period, and the student does not attend any classes in the second or subsequent payment period, ceases to be enrolled at least half time, or is expelled prior to the start of the payment period, the school must determine whether the borrower is ineligible for the funds (see section 7.12). If the school determines that the borrower was ineligible for the loan funds, the school must notify the lender of the borrower's receipt of ineligible funds (see subsection 8.1.M. for lender servicing requirements for ineligible loans). If the school determines that the borrower was eligible for the funds, the school must adhere to the applicable refund and repayment guidelines (see section 4.7). The school will not be assessed any liability for delivering loan funds in this instance unless the school knew or should have known that the borrower was ineligible to receive the funds at the time they were delivered.
[§668.167(b); §682.604(d)(3) and (4)]

Refund of Proceeds

If the student registers but officially withdraws or is expelled, the school must pay that portion of a refund allocable to a FFELP loan to the lender within 60 days of the student's withdrawal date. If the student unofficially withdraws or takes an unapproved leave of absence, the school must pay that portion of a refund allocable to a FFELP loan to the lender within 60 days of the date the school determines that the student has unofficially withdrawn or taken an unapproved leave of absence. If the student drops to less than half-time status, but is still enrolled, the school need not calculate a refund. For more information on determining the date of withdrawal, see section 4.6.

Some guarantors do not require refunds of delivered proceeds for students who fail to attend classes, when such proceeds are delivered within the permissible 10-day time frame preceding the beginning of a second or subsequent term. These exceptions are noted in appendix C.

If the student does not return at the end of an approved leave of absence, the school must pay that portion of a refund allocable to a FFELP loan to the lender within 30 days of the date the leave of absence ended or within 30 days of the date the student notified the school that he or she would not be returning, whichever is earlier.
[§668.22(j); §682.607(c)]

6.3.H.
Late Delivery by a School

A school may deliver Stafford or PLUS loan proceeds to a student or parent borrower after the end of the loan period or the date on which the student ceased to be enrolled at least half time, provided that:

- The school certified the loan application before the earlier of the end of the loan period or the date on which the student ceased to be enrolled at least half time and the school received a SAR from the student or an ISIR from the Department with an official expected family contribution (EFC) calculated by the Department.

- In the case of a first-year, first-time borrower whose loan is subject to delayed delivery (see subsection 6.3.E., Delayed Delivery Requirement), the student completed the first 30 days of his or her program of study.

- In the case of a second or subsequent disbursement, the student graduated or successfully completed the period of enrollment for which the loan was intended.

- The loan funds will only be used to pay educational costs that the school determines the student incurred for the period in which the student was enrolled and eligible.

- The school delivers the funds no later than 90 days after the earlier of the end of the loan period or the date on which the student ceased to be enrolled at least half time.

If the total amount of the late disbursement and all prior disbursements exceed the student's educational costs for the period in which the student was enrolled and eligible, the school must return the balance of the borrower's loan proceeds to the lender with a notice certifying the following:

- The beginning and ending dates of the loan period or payment period during which the borrower was enrolled at the school as an eligible student.

- The borrower's corrected financial need for the loan for that loan period or payment period.
  [§668.164(g); 682.604(e)]

For information on late disbursement requirements for lenders, see subsection 6.2.H.

6.3.I.
School Disbursement and Delivery Requirements

Subsections 6.3.A. through 6.3.H. outline the requirements that a school must meet when requesting, processing, and delivering a borrower's loan proceeds. The tables that follow provide an overview of the related time frames and regulations as applicable to the requirements, disbursement methods, and situations described in these subsections.

SCHOOL REQUIREMENTS BEFORE DELIVERING A FFELP LOAN

Requirements	Comments
Confirm student is enrolled at least half time.	A temporary cessation of half-time enrollment is permitted if the school performs the following activities: • Recalculates the student's COA (and the borrower still qualifies for full amount of the loan). • Documents the student's enrollment status, revised COA, and continued eligibility.
Confirm student has returned from an approved leave of absence.	See section 4.5 for more information on leave of absence.
Confirm student is maintaining satisfactory academic progress.	Assessment of satisfactory academic progress is not required at the time the loan is received or delivered, unless required by the school's policy.
Verify student data, if required.	See section 5.6 for more information on verification.
Obtain all required financial aid information.	See subsection 5.2.E. for more information on FATs.
Perform entrance counseling, if required.	Entrance counseling is required only for first-time student borrowers. • For loans first disbursed before 07/01/95, "first-time" means first-time attendance at the school regardless of whether student borrowed a Direct loan or a FFELP loan at another school. • For loans first disbursed on or after 07/01/95, a "first-time" borrower is a student who has not previously borrowed a Direct loan or a FFELP loan.
Confirm that no overaward exists.	The sum of an installment and the student's other resources may not exceed the student's need. • All or a portion of any unsubsidized Stafford or PLUS loan (made under the FFELP or FDLP) may be used to replace EFC. • The determination of whether an overaward exists excludes a $300 FWS tolerance for students with FWS awards. • To eliminate the amount in excess of need, the school must return excess amount and/or adjust the amount of a subsequent disbursement.
Adhere to delayed delivery requirement, if applicable.	The delayed delivery requirement applies only to the first disbursement of a Stafford loan made to a first-time borrower in the first year of an undergraduate program. • The disbursement may not be delivered until the 31st day of student's first payment period. • Not applicable if student borrowed a FFELP or FDLP loan at another school. • The school may not request an EFT or master check disbursement earlier than the 28th day of the student's first payment period. • The school may not request an individual check disbursement earlier than the 1st day of the student's first payment period.

Adapted from: *Trainee Guide: 1995-96 Delivery System Training Workshop*, U.S. Department of Education, December 22, 1994, page 5-36.

DISBURSEMENT AND DELIVERY OF LOAN PROCEEDS

Disbursement Method	Not Subject to Delayed Delivery[1] Earliest Disbursement Date	Not Subject to Delayed Delivery[1] Earliest Delivery Date	Subject to Delayed Delivery[2] Earliest Disbursement Date	Subject to Delayed Delivery[2] Earliest Delivery Date
Individual Check	30 days before first day of payment period	10 days before first day of payment period	1st day of first payment period	31st day of first payment period
EFT or Master Check	13 days before first day of payment period	10 days before first day of payment period	28th day of first payment period	31st day of first payment period
	§682.207(b)(1)(iii) §668.167(a) §682.603(h)	§668.164(a) and (f)	§668.167(a) §682.603(h)	§668.164(a) and (f) §682.604(c)(5)

1 Applies to disbursement and delivery of all loan proceeds at credit-hour schools with programs offered in semester, trimester, or quarter academic terms. Clock- or credit-hour schools with programs not offered in semester, trimester, or quarter academic terms should see subsection 6.3.E. for applicable disbursement and delivery requirements.

2 Applies to the first disbursement of a Stafford loan made to a student who is enrolled in the first year of an undergraduate study program and who has not previously received a Stafford or SLS loan. Some schools are not required to delay the delivery of loan funds to these students (see subsection 6.3.E.).

DELIVERY OF CREDIT BALANCES

Disbursement Method	Latest Delivery Date
Individual Check, EFT, or Master Check	No later than 14 days after: • The first day of the payment period if the credit balance occurs on or before the first day of the payment period. • The date the credit balance occurs if the credit balance occurs after the first day of the payment period. • The date the school receives the student or parent borrower's notice to cancel his or her authorization to have the school manage the credit balance. [§668.164(e); §668.165(b)(4)(iii); §682.604(c)(3)(ii)]

DELIVERY OR RETURN OF LOAN PROCEEDS

For more detailed information about the delivery or return of loan proceeds, see subsections 6.3.E. and 6.3.G.

Situation	Condition Under Which Proceeds May Be Delivered to Student	Latest Delivery Date[1]	Time Frame for Returning Undelivered Proceeds to Lender [2, 4]
Enrolled student fails to respond to request for endorsement of loan check or fails to authorize EFT or master check	After endorsement or authorization, subject to FFELP loan delivery requirements	Check: Within 30 days after receipt of proceeds EFT/Master Check: Within 10 business days after receipt of proceeds[3]	Promptly, but no later than 10 business days after the latest delivery date
Student is on an approved leave of absence	Student returns from the leave of absence	Check: Within 30 days after receipt of proceeds EFT/Master Check: Within 10 business days after receipt of proceeds[3]	Promptly, but no later than 10 business days after the latest delivery date
Student fails to undergo initial loan counseling	After counseling, subject to FFELP loan delivery requirements	Check: Within 30 days after receipt of proceeds EFT/Master Check: Within 10 business days after receipt of proceeds[3]	Promptly, but no later than 10 business days after the latest delivery date
Student selected for verification	When verification is completed, subject to FFELP loan delivery requirements	Within 45 days of receipt of proceeds	Promptly, but no later than 10 business days after the latest delivery date if verification is not completed
Missing financial aid information for student (see subsection 5.2.E.)	When all required financial aid information (i.e., financial aid transcript or equivalent NSLDS information) is received, subject to FFELP loan delivery requirements	Within 45 days of receipt of proceeds	Promptly, but no later than 10 business days after the latest delivery date if all required financial aid information is not received
Student fails to register	N/A	*Only to determine time frame for returning proceeds* Check: Within 30 days after receipt of proceeds EFT/Master Check: Within 10 business days after receipt of proceeds[3]	Promptly, but no later than 10 business days after the latest delivery date
Registered student withdraws or is expelled before first day of classes, or fails to attend	N/A	*Only to determine time frame for returning proceeds* Check: Within 30 days after receipt of proceeds EFT/Master Check: Within 10 business days after receipt of proceeds[3]	Promptly, but no later than 10 business days after the latest delivery date
Student fails to maintain at least half-time enrollment or loses loan eligibility	N/A	*Only to determine time frame for returning proceeds* Check: Within 30 days after receipt of proceeds EFT/Master Check: Within 10 business days after receipt of proceeds[3]	Promptly, but no later than 10 business days after the latest delivery date
Student is overawarded	Student is eligible for portion of proceeds	Check: Within 30 days after receipt of proceeds EFT/Master Check: Within 10 business days after receipt of proceeds[3]	Promptly, but no later than 10 business days after the latest delivery date if entire loan disbursement Within 60 days of determining an overaward exists if portion of proceeds

[§668.19(a)(4); §668.22(j); §668.58(c); §668.60(b)(3); §668.167(b); §682.604(c)(2); §682.607(c); Department of Education Policy Bulletin dated June 2, 1997]

1 Schools may delay delivery of loan proceeds for a conditional period of 10 business days after the last day of the initial period if, within this conditional period, the school expects the student to complete the required number of clock or credit hours in a preceding payment period or the school expects the student to meet all FFELP eligibility requirements. The school is encouraged to document the reason for holding loan proceeds for delivery within this conditional period. This provision does not apply to students for whom verification has not been completed or financial aid information (i.e., financial aid transcript or equivalent NSLDS information) is missing.

2 Schools must indicate in writing the reason for returning loan proceeds and provide the student's withdrawal date, if applicable. If, during the return period, the school determines that the student has become eligible to receive the loan proceeds, the school may deliver the proceeds rather than return them to the lender, provided the delivery is made on or before the last day of the return period.

3 EFT and master check loan proceeds received by the school on or after July 1, 1999, must be delivered within 3 business days.

4 For purposes of returning undelivered proceeds to the lender, the term "promptly" means that a school may not delay initiating and completing its normal return process. "Returning the proceeds promptly, but no later than 10 business days" means that the school must either mail a check or initiate an electronic funds transfer to the lender by the close of business of the last day of the return period.

6.4
Disbursement and Delivery of Proceeds in Cases of Loss of School Eligibility

Generally, if a school loses its eligibility to participate in the Department's or guarantor's programs, a student attending the school may remain eligible to receive outstanding proceeds of a FFELP loan for which the first disbursement already has been received.

A school may credit to a student's account or deliver to the student the proceeds of a Stafford loan to satisfy any unpaid commitment made to the school under the Federal Stafford Loan Program only if all of the following conditions are met:

- The school's participation in the Federal Stafford Loan Program ends during the student's period of enrollment.
- The Stafford loan commitment was made before the end of the school's participation.
- The commitment was made for the student's attendance during the period of enrollment in which the school's participation ended.
- The proceeds of the first disbursement of the loan were delivered to the student or credited to the student's account before the end of the school's participation.
- The school continues to provide, from the date that its participation ends until the scheduled completion date of that period of enrollment, educational programs to otherwise eligible students enrolled in the formerly eligible programs of the school.

The preceding guidelines do not apply to every situation in which a school ceases to be eligible to participate in Title IV programs. The school should immediately contact the Department or a guarantor for additional guidance on delivering proceeds. Improper delivery of student loan proceeds may result in institutional liability.

If a lender is notified of a school's loss of eligibility, the lender should immediately cease making first disbursements to students attending the school, and contact the Department or a guarantor regarding the continued eligibility of the students for subsequent disbursements on loans for which first disbursements have already been made.
[§668.26(d)(2)]

6.5
Students Who Transfer

A Stafford or PLUS loan may be used only to cover the educational costs of attendance at the school that certifies the borrower's eligibility for the loan. If a student transfers between schools at any time, neither the student nor the parent borrower is eligible to receive the loan proceeds that were guaranteed for the student's attendance at the previous school. Both the cost of attendance and estimated financial assistance may change substantially if the student transfers schools, and the change could affect the borrower's eligibility for the loan. Both the former school and the lender must treat the transfer as a withdrawal for the purposes of disbursing and delivering proceeds.

If a student transfers between schools at any time, a student or parent borrower seeking additional education loan funds must reapply at the new school.

For Stafford loans made to students who completed a Master Promissory Note (MPN), the student may borrow additional loans under the same MPN regardless of any change in school or guarantor, provided the new school is authorized to use the multi-year feature. However, the student must complete a new MPN if the new school or the lender requires the borrower to complete a new MPN, the borrower chooses a new lender, or the MPN is no longer valid (see subsection 6.1.A.).

For Stafford loans made to students who completed a common application and promissory note or an MPN and transferred to a school that is not eligible to participate in the multi-year feature of the MPN, the student must complete a new application and promissory note or a new MPN for the new school.

For PLUS loans, the borrower must complete a new application and promissory note for the new school.
[DCL GEN-98-25; DCL GEN-99-9]

If the Stafford or PLUS loan had been partially or fully disbursed at the previous school, the procedures outlined in the following subsections 6.5.A. and 6.5.B. apply.

6.5.A. Students Who Transfer before Full Disbursement of the Loan

If a student transfers from one school to another before a loan is fully disbursed, the student or parent borrower is not eligible for any remaining disbursements of that loan. Any disbursement not yet made must be canceled. As described in section 6.5, the student or parent borrower may submit a new loan request, which must be certified by the new school.

Until the first loan or the balance of any undisbursed portion of the loan has been canceled, some guarantors will be unable to guarantee a second loan for attendance at the new school. To avoid delays in processing the borrower's second loan request, the lender should instruct the guarantor to cancel the loan or the undisbursed portions of the loan. For more information on canceling a disbursement or an entire loan, see section 6.7.

6.5.B. Students Who Transfer after Full Disbursement of the Loan

If a student transfers to another school after receiving all disbursements of a loan made for attendance at the previous school, the student or parent borrower is generally not eligible to receive a second loan during the same enrollment period. An exception to this policy is made if one of the following conditions exist:

- The borrower did not receive the maximum loan amount for which he or she is eligible, in which case the borrower may receive up to the remaining eligibility to pay for cost of attendance at the new school.

- The student's first school processed a refund for the student, in which case the borrower may receive up to the amount of the refund plus any remaining eligibility. The lender must report the refund to the guarantor so that a subsequent loan may be guaranteed.

- The student advances to a higher grade level and, as a result of the grade level advancement, becomes eligible for additional Stafford loan funds.

6.6 Guarantee and Federal Origination Fees

All loans disbursed on or after July 1, 1994, for a period of enrollment that either includes or begins after that date, are subject to a maximum 1% guarantee fee and a maximum 3% federal origination fee. The guarantee fee is assessed to the lender, and the lender may pass the fee on to the borrower. The origination fee is assessed to the borrower and paid to the Department by the lender. The lender, however, may pay the origination fee on a Stafford loan on a borrower's behalf.
[§682.202(c) and (d)]

Before the borrower's proceeds can be disbursed, the lender must collect the guarantee and origination fees that are being charged to the borrower. If the fees are being deducted from the loan proceeds, they must be deducted proportionately from the borrower's loan for multiply disbursed loans. The lender must not deduct the full amount of the fees for a multiply disbursed loan from a single disbursement of that loan.

6.6.A. Payment of Guarantee Fees

A lender will receive an invoice for the guarantee fees owed on all loans scheduled for disbursement. The lender must reconcile the invoice for loans actually disbursed and remit payment of the guarantee fees to the guarantor.

6.6.B. Nonpayment of Guarantee Fees

If the guarantee fee for a loan is not remitted in the time frame established by the guarantor, the guarantor may cancel the guarantee on the loan. If a guarantee is canceled, the loan loses eligibility for interest benefits and special allowance, and no claim will be paid if the borrower later defaults on the loan, dies, or becomes totally and permanently disabled. Once the guarantee is canceled for nonpayment of fees, the guarantor may choose not to reinstate it.

Generally, the lender will receive notification from the guarantor if fees are not paid in a timely manner and if any loan guarantees are going to be canceled.

6.6.C.
Recalculation of the Guarantee Fee

In most cases, a lender will not be required to calculate guarantee fees and will simply pay the guarantee fee amount that appears on the guarantee disclosure.

If required by the guarantor, a lender must recalculate the guarantee fee when the amount of a disbursement is increased or decreased—regardless of whether or not the loan is fully disbursed. If a disbursement amount has been decreased, the lender need not obtain a new guarantee disclosure. Instead, the lender should amend the original notice to reflect the decreased amount, initial the change, and provide the borrower with a copy of the amended notice. The lender must notify the guarantor of the reduced loan amount.

If a disbursement amount has been increased, the lender must notify the guarantor of the increase and obtain a new guarantee disclosure. The lender must notify the borrower of the revised guarantee.

If the change to the amount originally guaranteed occurs before the first disbursement of a multiply disbursed loan, the lender must recalculate the guarantee fee for all disbursements based on the new loan amount. If the change occurs after the first disbursement, the lender must recalculate only the fee for the subsequent disbursement(s).

▲ Lenders may contact individual guarantor's for more information on guarantee fee recalculation requirements. See section 1.5 for contact information.

6.6.D.
Refund of the Guarantee Fee

A lender must refund the guarantee fee or an appropriate prorated amount of the guarantee fee and apply the refund as a credit to the borrower's principal balance if any of the following conditions exist:

- The loan or any portion of the loan is returned by the school to the lender, at any time, to comply with Title IV program requirements. In the absence of any required notification from the school, the lender may assume that the school is returning funds to comply with these requirements.
- The disbursement check has not been negotiated within 120 days of disbursement.
- The loan proceeds disbursed by electronic funds transfer (EFT) or master check have not been released from the school's account within 120 days of disbursement.

If a borrower who does not have any loans in repayment repays or returns any portion of the disbursement within 120 days of the disbursement, the lender must apply the funds as a cancellation or partial cancellation of the loan and refund the guarantee fee or an appropriate prorated amount of the guarantee fee, as applicable. The lender must apply the refund of the guarantee fee as a credit to the borrower's principal balance. However, the borrower may request in writing that the lender apply funds received from the borrower as a regular payment or prepayment on the

CALCULATING THE AMOUNT OF THE GUARANTEE FEE REFUND

When calculating the amount of a guarantee fee refund, lenders should use the following formula:

$$\frac{\text{Amount Returned to Lender} \times \text{Guarantee Fees Paid to Date on Loan*}}{\text{Net Amount Disbursed to Date*}} = \textbf{Credit Due Borrower**}$$

* Calculate numerator and denominator to four places past the decimal, but do not round.

** Calculate solution to four places past the decimal and round to the nearest whole cent, using standard rounding practices (for example, round $0.0140 to $0.01; $0.0150 to $0.02).

Lenders are strongly encouraged to use this guarantee fee refund formula, or one that results in an equivalent end result, to better ensure that the amount of guarantee fee refund calculated and returned to the borrower will be the same as the amount requested and returned from the guarantor.

EXAMPLES OF CALCULATING GUARANTEE FEE REFUNDS

Consider the following calculation methodology on a sample loan of $2,625 made in two disbursements with a 1% guarantee fee:

Sample Loan Terms:	**Gross Disbursement Amount**	**Guarantee Fee (1%)**	**Origination Fee (3%)**	**Net Disbursement Amount**
Disbursement 1	$1,313.00	$13.13	$39.39	$1,260.48
Disbursement 2	$1,312.00	$13.12	$39.36	$1,259.52
Total Loan Amount	$2,625.00	$26.25	$78.75	$2,520.00

Example 1
First disbursement made; school returns $1,260.48.

$$\frac{\$1{,}260.48 \text{ (Amount Returned to Lender)} \times \$13.13 \text{ (Guarantee Fees Paid to Date)}}{\$1{,}260.48 \text{ (Net Amount Disbursed to Date)}} =$$

$$\frac{\$16{,}550.1024}{\$1{,}260.48} = \$13.13 \text{ (Credit Due Borrower)}$$

Example 2
First disbursement made; school returns $650.58.

$$\frac{\$650.58 \text{ (Amount Returned to Lender)} \times \$13.13 \text{ (Guarantee Fees Paid to Date)}}{\$1{,}260.48 \text{ (Net Amount Disbursed to Date)}} =$$

$$\frac{\$8{,}542.1154}{\$1{,}260.48} = \$6.7768 = \$6.78 \text{ (Credit Due Borrower)}$$

Example 3
First and second disbursements made; school returns $650.58.

$$\frac{\$650.58 \text{ (Amount Returned to Lender)} \times \$26.25 \text{ (Guarantee Fees Paid to Date)}}{\$2{,}520 \text{ (Net Amount Disbursed to Date)}} =$$

$$\frac{\$17{,}077.7250}{\$2{,}520.00} = \$6.7768 = \$6.78 \text{ (Credit Due Borrower)}$$

loan (see subsection 7.8.A. regarding applying regular payments and subsection 7.8.B. regarding applying prepayments). The lender must comply with the borrower's request.

If a borrower does have loans in repayment, the lender must apply funds that are repaid or returned by the borrower within 120 days of the disbursement according to its normal payment processing procedures. However, a borrower may request in writing that the lender apply the funds as a cancellation or partial cancellation of the loan. The lender must comply with the borrower's request and refund the guarantee fee or an appropriate prorated amount of the guarantee fee, as applicable.
[§682.401(b)(10)(vi)]

If the lender paid the guarantee fee instead of deducting the fee from the borrower's loan, the lender may retain the guarantee fee and is not required to refund it to the borrower.

If the borrower paid his or her guarantee fee directly to the lender rather than having the fee deducted from his or her loan, the lender must refund the fee to the borrower instead of applying it as a credit to the loan.

▲ Lenders may contact individual guarantors for more information on requesting a refund of a portion of the guarantee fee. See section 1.5 for contact information.

6.6.E.
Deducting the Federal Origination Fee

A loan disbursed on or after July 1, 1994, is subject to a maximum 3% federal origination fee. A lender must report the full amount of principal disbursed on Stafford and PLUS loans during any given quarter to the Department on its ED Form 799. The lender may report the amount of the origination fees owed for those sums or may permit the Department to calculate the amount of fees owed. All loans canceled or partially canceled, and for which an origination fee was already paid, should be reported on the lender's ED Form 799 for a refund of the fee from the Department.
[§682.202(c)]

A lender is required to charge origination fees to PLUS borrowers. Although a lender must pay an origination fee to the Department on Stafford loans, the lender is not required to charge that fee to the borrower.
[HEA 438(c)(2)]

Origination fees should not be sent to the Department when the lender prepares its ED Form 799. The Department will automatically deduct the amount of origination fees that the lender owes from the amount of interest benefits and special allowance payments the Department owes to the lender. The exceptions to this are if the total of the origination fees exceeds the amount of interest benefits and special allowance due from the Department, or the lender has not submitted an acceptable ED Form 799 in a timely manner. Loans that have been canceled will result in a refund of origination fees to the lender and, subsequently, to the borrowers. The remaining interest benefits and special allowance payments will be forwarded to the lender by EFT or check from the Department, generally by no more than 30 days following the date on which the lender's accurate report is received by the Department's processing center.

If an originating lender sells or otherwise transfers a loan to a new holder, the originating lender remains liable for payment of the origination fees to the Department. The Department will not pay interest benefits or special allowance to the new holder or pay reinsurance to the guarantor until the origination fees are paid.

For further information on origination fees and ED Form 799, see appendix A.

6.6.F.
Refund of the Federal Origination Fee

A lender must refund the origination fee, or an appropriate prorated amount of the origination fee, and apply the refund as a credit to the borrower's principal balance if any of the following conditions exist:

- The loan or any portion of the loan is returned by the school to the lender, at any time, to comply with Title IV program requirements. In the absence of any required notification from the school, the lender may assume that the school is returning funds to comply with these requirements.
- The disbursement check has not been negotiated within 120 days of disbursement.
- The loan proceeds disbursed by electronic funds transfer (EFT) or master check have not been released from the school's account within 120 days of disbursement.

If a borrower who does not have any loans in repayment repays or returns any portion of the disbursement within 120 days of the disbursement, the lender must apply the funds as a cancellation or partial cancellation of the loan and refund the origination fee or an appropriate prorated amount of the origination fee, as applicable. The lender must apply the refund of the origination fee as a credit to the borrower's principal balance. However, the borrower may request in writing that the lender apply funds received from the borrower as a regular payment or prepayment on the loan (see subsection 7.8.A. regarding applying regular payments and subsection 7.8.B. regarding applying prepayments). The lender must comply with the borrower's request.

If a borrower does have loans in repayment, the lender must apply funds that are repaid or returned by the borrower within 120 days of the disbursement according to its normal payment processing procedures. However, a borrower may request in writing that the lender apply the funds as a cancellation or partial cancellation of the loan. The lender must comply with the borrower's request and refund the origination fee or an appropriate prorated amount of the origination fee, as applicable.
[§682.202(c)(5)]

If the lender paid the origination fee instead of deducting the fee from the borrower's loan, the lender may retain the origination fee and is not required to refund it to the borrower.

If the borrower paid the origination fee directly to the lender rather than having the fee deducted from his or her loan, the lender must refund the origination fee to the borrower instead of applying it as a credit to the loan.

6.6.G.
Lender Origination Fee

A lender is charged a fee equal to 0.5% of the principal amount of each FFELP loan. This fee cannot be passed on to the borrower. The lender remits the fee by making an entry on the ED Form 799, which results in an offset of the amount of quarterly interest benefits and special allowance payments due to the lender. For more information on remitting this fee to the Department, see appendix A.
[DCL 93-L-161; DCL 93-G-246; DCL 93-S-71]

6.7
Disbursement Cancellation

Canceling a disbursement is a lender function that results in a reduction of a loan's guarantee. There are a number of reasons why it is necessary to cancel a disbursement:

- The student transfers to a new school and must have his or her loan eligibility redetermined at the new school.
- The student no longer wants the disbursement.
- The loan proceeds are not negotiated within 120 days after disbursement.
- The student withdraws or is otherwise no longer eligible for the disbursement.

When a disbursement is canceled, the lender must refund the origination and guarantee fees to the borrower and reduce the borrower's loan amount accordingly. The lender must notify the guarantor in a format acceptable to the guarantor of the disbursement cancellation.

7 Loan Servicing

7 Loan Servicing

Lenders should note that this chapter does not yet reflect guidance specific to loans made using the Master Promissory Note (MPN). The U.S. Department of Education and the FFELP community did not approve MPN-specific guidance on loan servicing, delinquency, and claims in time for the July 1999 updates of this manual.

Lenders are expected to make a good-faith effort to administer loans made under the MPN in accordance with current statute, regulations, and guarantor policies noted in this manual. Lenders are encouraged to contact individual guarantors with questions regarding the administration of loans made using the MPN.

Chapter 7 describes the requirements for lenders servicing FFELP loans. The information presented in this chapter applies to Stafford, PLUS, and SLS loans. Where noted, provisions also apply to Consolidation loans. Other requirements specific to Consolidation loans are covered in chapter 9.

Loan servicing begins when the loan is disbursed, and encompasses all activities during the in-school, grace, and repayment periods. Servicing activities include:

- Verifying the student's in-school status.
- Converting the loan to repayment.
- Establishing repayment terms.
- Applying payments, deferments, and forbearances.
- Reporting transactions to the guarantor.
- Reporting the loan to a national credit bureau (see subsection 3.5.C.).
- Performing collection due diligence (see section 8.1).
- Responding to borrower or endorser inquiries within 30 days of receiving the inquiry. Such inquiries may include requests for deferments, forbearances, and other information.
  [§682.208(c)(1)]

The procedures the lender develops and the resources it devotes to servicing its loans and complying with the due diligence requirements specified in chapter 8 will be the largest single commitment the lender makes to the proper administration of FFELP loans. Many lenders contract with third-party servicers to perform servicing functions required for FFELP loans. The use of a reliable servicer can be an effective way for the lender to standardize procedures, facilitate growth, minimize costs, and ensure its loans are administered in full compliance with federal laws and regulations, and guarantor policies and procedures. For more information on lender and servicer requirements, see chapter 3.

7.1 In-School Period

The in-school period on a loan begins on the date the student begins at least half-time enrollment and ends when the student ceases to be continuously enrolled at least half time.

Generally, a student is considered to be continuously enrolled for any period when there are no breaks in enrollment other than those coinciding with the school's regular academic periods, or when a student is not considered to be enrolled less than half time longer than any applicable grace period. A student is considered to be continuously enrolled in any of the following cases:

- The student attends school through the end of the spring academic period, does not attend during the summer period, but resumes enrollment in the fall (summer bridge extension).
- The student attends a school that has lost its Title IV eligibility after the student enrolled, but he or she maintains continuous enrollment at least half time.
- The student delays his or her enrollment at the beginning of a school term for a period not to exceed 30 days.
- The student temporarily ceases to be enrolled on at least a half-time basis, but subsequently reenrolls at least half time and remains eligible for the full loan amount notwithstanding a reduction in the cost of attendance.
- The student simultaneously attends two or more eligible schools that have a cooperative or consortium agreement, and the student's combined enrollment at these schools equals at least half-time enrollment. The school that recognizes credit for the contracted portion of the program of study must certify the student's entire enrollment. A student in this case is considered to be continuously enrolled only if one of the schools certifies that the student's total enrollment is considered to be at least half time.
  [§682.604(b)(2); §600.9]

Correspondence Study

For a student enrolled in a program of correspondence study, the in-school period ends on the earliest of the following dates:

- The date on which the student completes the program.

- The date the last lesson is submitted by the student, if the student fails to submit the next lesson as scheduled by the school. If a student fails to submit an assignment within 60 days, the school may restore the student's in-school status if the student provides, within the 60-day period, a written statement confirming that the student intends to continue in the program and understands that required lessons must be submitted on time. A school may restore in-school status in this way only once for each student.

- The date that is 60 days following the latest allowable date established by the school for completing the program under the required schedule.
  [§668.22(j); §682.209(a)(4); §682.602; §682.604(b)(2)]

7.2
Grace Period

A Stafford loan borrower is entitled to a grace period during which payments of principal are not required and which is intended to provide the student borrower with time to find employment and prepare to repay the loan. An SLS loan borrower who has a Stafford loan that has not entered repayment is also entitled to a grace period on his or her SLS loan(s) if he or she requests that grace period.

Length of the Grace Period

A grace period begins on the day after the Stafford borrower ceases to be enrolled at least half time at an eligible school, as determined by the out-of-school date provided by the school (the student's last date of at least half-time attendance or the student's anticipated graduation date if an earlier withdrawal date is not reported). The grace period ends the day before the repayment period begins. If the Stafford loan borrower also has an SLS loan, he or she may request a grace period on that SLS loan. The SLS loan's grace period is equivalent to the grace period for the Stafford loan (see "Aligning the Repayment of Stafford and SLS Loans" below).

A grace period ends 6 to 12 months after it begins, depending on the interest rate at which the loan is disbursed. The number of months allowed for the grace period is disclosed to the borrower at or before the disbursement of the loan.
[§682.200; §682.209]

A 6-month grace period is authorized for all Stafford loans disbursed at a variable interest rate or a fixed rate of 8%, 9%, or 8%/10%. A grace period of 9, 10, 11, or 12 months applies—as indicated on the borrower's promissory note—for Stafford loans disbursed at a fixed interest rate of 7%. If a loan originally disbursed at a fixed rate of 7% is converted to a variable rate, the loan retains the applicable grace period of 9, 10, 11, or 12 months.
[§682.209(a); DCL 94-L-171]

Payment of Interest during the Grace Period

For subsidized Stafford loans, interest accruing during the grace period is paid by the federal government. For unsubsidized Stafford loans, the borrower is responsible for paying all interest that accrues during the life of the loan.
[§682.300(a)]

Limitations on the Grace Period

A borrower is allowed only one grace period on a loan or on each group of loans merged into a single repayment schedule. However, if the borrower ceases at least half-time enrollment and then reenrolls at least half time at an eligible school before the grace period expires, the borrower is considered to have been continuously enrolled, and the loan remains in the in-school period. Once the grace period expires and the repayment period begins, a new grace period is not allowed.

Military Extension of the Grace Period

A Stafford borrower with a loan in a grace period or with a loan in an in-school status that would subsequently enter a grace period, who is called or ordered to active duty, is entitled to a military extension of the grace period for a period not to exceed 3 years. To qualify for this extension, the Stafford borrower must be called or ordered to active duty, on or after October 1, 1998, from a reserve component of the U.S. Armed Forces for a period in excess of 30 days. The maximum 3-year military extension includes the time period necessary for a borrower to resume enrollment at the next available and regular, scheduled enrollment period.

If the Stafford borrower resumes at least half-time enrollment at the end of the military extension, the borrower is entitled to a new grace period at the end of the in-school period. If the Stafford borrower does not resume at least half-time enrollment, the borrower is entitled to a new grace period at the end of the military extension.

Interest that accrues during the military extension is paid by the Department for subsidized Stafford loans. Interest accruing on unsubsidized Stafford loans is the responsibility of the borrower.
[HEA 428(b)(7)]

If the borrower is in repayment, deferment, or forbearance when he or she is called or ordered to active duty, see subsection 7.10.G. for information regarding military deferment and subsection 7.11.D. for information regarding mandatory administrative forbearance.

Waiver of the Grace Period

A borrower may waive all or a portion of the grace period by submitting a written request for a waiver. Once the grace period has been waived, it may not be reinstated. This limitation applies even if the borrower reenrolls at least half time before the amount of time originally allotted for the grace period has elapsed.
[§682.209(a)(5)]

> EXAMPLE
> A borrower has an original last date of attendance of June 19, 1994, and a grace period end date of December 19, 1994. The borrower provides a letter waiving the grace period effective July 31, 1994, and reenrolls full time in September 1994. The grace period may *not* be reinstated, and the borrower must request deferment or forbearance for all future loan periods for which the borrower wants to suspend making payments.

Aligning the Repayment of Stafford and SLS Loans

A borrower with one or more Stafford loans that have not entered repayment and one or more SLS loans is eligible to have the repayment period start dates on these loans aligned. A borrower's request for aligned repayment may be made verbally, in writing, or on the Stafford loan application and promissory note.

If repayment alignment is requested by a borrower, the lender must postpone repayment of the SLS loan(s) until the end of the grace period on the Stafford loan(s) that has not yet entered repayment. If the borrower has multiple Stafford loans that have not yet entered repayment and those loans have grace periods that are different in length, the lender must postpone repayment of the SLS loan(s) until the end of the longest applicable Stafford loan grace period to align repayment. Any interest that accrues on loans for which repayment has been postponed until the end of the grace period on the Stafford loan(s) must be paid by the borrower monthly or quarterly or be capitalized by the lender no more frequently than quarterly.

A lender may apply an administrative forbearance to Stafford loans that have entered repayment in order to align all of the borrower's Stafford and SLS loans. The borrower's request for alignment on the Stafford loan application and promissory note is acceptable as authorization to apply an administrative forbearance to align repayment; no further documentation is needed from the borrower. For more information on administrative forbearance, see subsection 7.11.B.

A lender is required to offer the option of aligning repayment to each eligible borrower. The lender may include this notice on the disclosure, on other correspondence, or as a separate notice to the borrower. When notifying the borrower, the lender must:

- Advise the borrower that repayment has been postponed until the end of the Stafford loan grace period to align due dates and that, if he or she does not want the postponement, he or she must contact the lender.

- Explain the difference in total costs to the borrower.

If the borrower requests repayment alignment on the Stafford loan application and promissory note, the lender must issue a follow-up notice that the lender is providing repayment alignment and that, if the borrower does not want the postponement, he or she must contact the lender. The Stafford loan application and promissory note provides the borrower with an explanation of the difference in total costs; lenders are not required to provide further notice of this information (see subsection 7.11.G. for additional borrower notification requirements).
[§682.102(e)(3); §682.200; §682.209(a)(2)(iii); §682.210(c)(2); DCL GEN-92-21; DCL 96-G-287/96-L-186, Q&As #17–#20 and #24, and April 1996 supplement to the DCL]

7.3
Verification of Enrollment

During the in-school, grace, and deferment periods, a guarantor monitors the enrollment status of the borrower, or the student on whose behalf a parent has borrowed a PLUS loan, to determine whether the student is maintaining continuous enrollment on at least a half-time basis. As a result, schools are required to supply enrollment information to guarantors, lenders, holders, or their servicers.

To monitor a student's enrollment, the guarantor must obtain enrollment verification from the school on at least a semiannual basis. This verification is facilitated through the guarantor's student status confirmation report (SSCR) process, as outlined in section 4.8. In completing the SSCR, schools provide either *(a)* the date on which the student was last enrolled at least half time or *(b)* the effective date of the student's current enrollment status (less than half time, half time, or full time) and an anticipated graduation date.

Federal regulations require a school to certify the status of each student listed on the SSCR, regardless of whether the student's status has changed. This ensures that the guarantor has each student's most current status verified by the school. Information received from the SSCR process is provided to lenders by the guarantor.

The guarantor notifies the lender of changes in the student's enrollment status as reported to the guarantor by any of the following:

- The student's school by the SSCR or other approved mechanisms such as the National Student Loan Clearinghouse or the National Student Loan Data System.

- The borrower (these status changes must be verified by the school as outlined in 7.3.A.).

  Some guarantors have additional requirements regarding enrollment status updates from borrowers. These requirements are noted in appendix C.

- Another lender holding a loan for the same borrower.

- A new application and promissory note for a repeat borrower.
  [§682.610(c)]

Lenders must document, in the borrower's file or the servicing history of the loan, both the receipt of any enrollment change information obtained from the guarantor and the action the lender took in response to the information.
[§682.401(b)(20)]

7.3.A.
Lender Processing of Enrollment Changes

The lender must review and update its records promptly with all enrollment change information received regarding a student. If the lender receives any information that conflicts with its records, the lender is required to resolve these discrepancies. Schools are responsible for assisting lenders in resolving conflicts in the information related to the borrower's enrollment. Enrollment information must be recorded in the borrower's file or in the servicing history of the loan and must be available at all times.

The application and promissory note for a Stafford or PLUS loan contains the borrower's request for a deferment and the school's certification of the borrower's or student's enrollment status. If the borrower checks "yes" for the deferment question, the lender *must* use this information to grant a deferment for all of the borrower's outstanding FFELP loans, as applicable, unless the lender has conflicting information. For more information on the documentation required for granting deferments, see subsection 7.9.B.

If the lender receives certification directly from the school that the student has maintained the same enrollment status and is expected to be enrolled through the date most recently reported to the lender, a student status change has not occurred. If the lender receives enrollment information as part of an in-school deferment that is certified for an academic period that ends earlier than the borrower's anticipated graduation date (AGD) of record and no conflicting AGD information is included on the enrollment certification, the lender should not adjust the borrower's AGD. In either case, although no change has occurred on the account, the lender must document that it received information from the school. However, the lender need not report to the guarantor any information regarding the loan's status, except to fulfill the lender manifest/NSLDS reporting requirements.

If the lender receives enrollment information that is certified for an academic period that ends after the borrower's AGD of record, regardless of whether the information comes in the form of an in-school deferment request, other written means, or as provided by the guarantor as part of its school SSCR process, the lender should adjust the borrower's AGD to agree with the information provided on the enrollment certification. In all cases, the lender must determine whether newly reported enrollment information supersedes the information on the lender's records and, if so, must make appropriate changes to the borrower's file or the servicing history of the loan.

If the school certifies that the student has withdrawn, dropped to less than half-time enrollment, or dropped from full-time to half-time enrollment, a status change may have occurred.

If the lender has already provided the borrower with a repayment disclosure and the lender receives new enrollment information with the same month and year as previously reported information but with a different day, the lender may continue to service the loan based on the previous information. However, if no repayment disclosure has been generated, or if the new information is not within the same month and year as prior information, the lender must service the loan based on the new information.

If the school's certification of the student's enrollment status indicates that the borrower may be eligible for an in-school deferment, the lender must obtain the appropriate documentation before granting the deferment on the new loan or any of the borrower's existing loans. The lender may combine the borrower's verbal request for deferment with the necessary documents and school certifications to grant a deferment.

Unless lender records indicate otherwise (the lender's receipt date may be earlier or later based on documentation retained by the lender), a guarantor will assume the lender's receipt date of enrollment information to be no later than:

- The end of the month in which the enrollment update report was generated—or, if the report was generated in the last 7 days of the month, no later than 5 days after the end of the month (the generation date is provided on the report).

- 5 days after the guarantor generates a tape, if the lender receives enrollment information by magnetic tape.

- The day a guarantor successfully transmits enrollment information to the lender electronically.

- 5 days after the date of the notice sent from the school (or other acceptable source).

The lender's receipt date for enrollment information, as noted in the borrower's file or servicing history, may be used to determine whether a loan was properly converted to repayment.

The lender may shorten the in-school period based on the information supplied by the borrower verbally or in writing. If the borrower provides a lender with student status information that would lengthen the in-school period, the lender must verify the information with the school. The school's financial aid office or registrar's office may confirm the information either in a telephone conversation or in writing. If the confirmation is by telephone, the lender must note the following information in the borrower's file or in the servicing history of the loan:

- The date the confirmation was received.

- The name and title of the school official providing the information.

- A summary of the information received (such as enrollment status and the exact dates of attendance).

▲ Some guarantors require written confirmation as a follow-up to a confirmation by telephone. Lenders may contact individual guarantors for more information. See section 1.5 for contact information.

Some guarantors have additional requirements regarding the acceptance of new out-of-school dates. These requirements are noted in appendix C.

If, after contacting the school, the lender determines that the information the borrower provided coincides with the school's records, the lender must adjust the loan according to the new status indicated by the borrower and the school.

It is important that a lender maintain a clear, comprehensive record of each student status change—especially changes to the student's last date of at least half-time enrollment. See subsection 3.4.A. for more information on record retention. [§682.208(c)(2); §682.414(a)(4)(ii)(E); Appendix D to §682]

7.3.B.
Lender Reporting of Enrollment Changes

Although federal regulations require the lender to update its records with all enrollment information received on a student, the lender should notify the guarantor only if the student's enrollment status or dates of attendance actually change. The lender is not required to report information to the guarantor when a school simply recertifies that the student remains continuously enrolled.
[§682.414(a)(4)(ii)(E); *The Federal Student Financial Aid Handbook*, chapter 10]

Based on this guidance, the lender must report immediately to the guarantor in any of the following cases:

- When information is received that the student has graduated, withdrawn, or dropped to less than half-time enrollment on a date other than the date on which the student was projected to leave school.

  Some guarantors have additional requirements regarding the acceptance of new out-of-school dates. These requirements are noted in appendix C.

- When information is received that the student is no longer eligible for an existing in-school deferment because the student dropped to less than half-time enrollment, or, if applicable, dropped from full-time to half-time enrollment.

- When information is received that the student has an anticipated graduation date other than the one previously reported.

For information on reporting status changes to guarantors, see subsection 3.5.D.

Some guarantors accept enrollment status change information from schools only. Details are noted in appendix C.

7.4
Beginning Repayment of the Loan

The Department has waived the enforcement of school reporting of day-specific graduation dates until the National Student Loan Data System (NSLDS) is available for the transmission of this information. In the interim, a school should provide the date a student was last enrolled at least half time, and the lender should use that date to the extent possible.

In addition, the Department has waived the enforcement of the requirement that lenders convert loans to repayment on a day-specific basis. In the interim, if a school provides only the month and year of the student's separation, the lender may use the last day of the month as the borrower's separation date for purposes of converting the loan to repayment.
[§682.209(a)(3); DCL 96-G-287/96-L-187, Q&A #18]

Stafford Loans (Subsidized and Unsubsidized)

Until recently, there were two permissible methods for calculating the date on which a Stafford loan borrower's grace period ends and the repayment period begins:

- *The month-specific method*
  A lender converts the loan to repayment based on the number of months elapsed since the borrower was last enrolled. Repayment began on the first day of the 7th, 10th, 11th, 12th, or 13th month following the month in which the student graduated, withdrew, or ceased at least half-time enrollment.

- *The day-specific method*
  A lender calculates the grace end date as the day that is exactly 6, 9, 10, 11, or 12 months following the date on which the student was last enrolled at least half time. The repayment period begins on the day following the grace end date.

At the time this manual was published, the Department had not yet begun enforcing the day-specific requirement. However, lenders and schools must make a good-faith effort to comply with this requirement.

When the Department begins enforcing these requirements, lenders must use the day-specific method for converting loans to repayment. A loan is to be converted to repayment based on the exact date of the borrower's last day of at least half-time enrollment, plus the applicable grace period.
[§682.200; §682.209(a)(3)]

PLUS and SLS Loans

The repayment period on PLUS and SLS loans begins on the date the loan is fully disbursed.
[§682.209(a)(2)]

Coordinating the Repayment Start Dates for Stafford and SLS Loans

A lender must offer postponement of repayment on any SLS loan to a borrower who also has one or more Stafford loans that have not entered repayment. For additional information, see section 7.2 and subsection 7.5.B.
[HEA 482A(c)(1); §682.200; §682.209(a)(2); DCL GEN-92-21]

7.4.A. Conversion to Repayment

For a Stafford loan, the lender must establish accurate repayment start dates and first payment due dates in a timely manner, disclose repayment terms, and ensure the loan is converted to a repayment status immediately after the grace period expires. An SLS or PLUS loan is considered to be in repayment as soon as the loan is fully disbursed.
[§682.209]

A lender may learn after the fact that a student ceased attendance or dropped to less than half-time enrollment. In such cases of late notification, the lender must consistently convert these loans to repayment in a timely manner. See subsection 7.4.C. for additional information on late notification.
[§682.209; §682.411(b); Appendix D to §682]

7.4.B. Establishing the First Payment Due Date

A lender must establish the first payment due date on a loan according to the requirements in this subsection. If the lender fails to establish a first payment due date according to applicable requirements, due diligence violations may occur that may result in the cancellation of the loan's guarantee.
[§682.205(c)(1); Appendix D to §682]

Stafford Loans

The first payment due date for a Stafford loan must be no later than:

- 45 days following the beginning of the repayment period.
- 45 days after the last day of a deferment or forbearance period.
- 75 days after the date the lender learns that the borrower's loan(s) has entered repayment without the lender's knowledge (late notification that the borrower ceased at least half-time enrollment).

In each case, the preceding time frames may be extended for up to 30 days if an extension is necessary for the lender to comply with the requirement that a repayment disclosure be sent to the borrower no less than 30 days before the first payment is due.
[§682.209(a)(3); §682.205(c)(1); Appendix D to §682]

PLUS and SLS Loans

The first payment due date for a PLUS or SLS loan must be no later than:

- 60 days after the date the loan is fully disbursed.
- 45 days after the last day of a deferment or forbearance period.
- In the case of a late notification, 75 days after the date the lender learns the student withdrew from school before the loan was fully disbursed—or, in the case of a loan for which the borrower previously qualified for deferment, 75 days after the date the lender is notified that the borrower no longer qualifies for that deferment.

In each case, the preceding time frames may be extended for up to 30 days on a SLS loan if an extension is necessary for the lender to comply with the requirement that a repayment notification be sent to the borrower no less than 30 days before the first payment is due. This extension is not applicable to PLUS loans.
[HEA 433(b); §682.209(a)(2) and (3); DCL 96-G-287/96-L-186 and April 1996 supplement to the DCL]

Aligned Repayment of Stafford and SLS Loans

The first payment due date for aligned repayment of Stafford and SLS loans must be no later than:

- 45 days following the beginning of the repayment period on the Stafford loan.
- 45 days after the last day of a deferment or forbearance period.
- In the case of a late notification, 75 days after the date the lender learns the borrower's loan has entered the repayment period without the lender's knowledge (late notification that the borrower ceased at least half-time enrollment).

In each case, the preceding time frames may be extended for up to 30 days if an extension is necessary for the lender to comply with the requirement that a repayment notification be sent to the borrower no less than 30 days before the first payment is due.
[HEA 433(b); §682.209(a)(2) and (3); DCL 96-G-287/ 96-L-186 and April 1996 supplement to the DCL]

7.4.C. Late Notification

Stafford Loans

An adjustment must be made if a Stafford loan is not yet in repayment at the time a lender receives a new out-of-school date that places the loan into an immediate repayment status. The lender must convert the loan to repayment based on the new information within 60 days after receiving the notice. The lender must establish a first payment due date that is no later than 75 days from the date on which it received the new information. The lender must send the borrower a coupon book, billing notice, or other correspondence establishing the new first payment due date and amount. In some cases, regulations permit the lender up to an additional 30 days in which to establish a payment due date in cases where the extension is necessary for the lender to comply with the requirements that a repayment disclosure be sent to the borrower no less than 30 days before the first payment is due. (See subsection 7.4.B.)

The accrued interest on the borrower's loan from the actual grace period end date to the new first payment due date may be capitalized and disclosed to the borrower. A repayment disclosure must be sent to the borrower reflecting the adjusted due date, payment amounts, and revised principal balance, if applicable.
[§682.209(a)(3); Appendix D to §682]

If the lender has already sent a repayment disclosure to the borrower, the lender may send a notice of the change in repayment terms to the borrower reflecting the adjusted due date, payment amounts, and any revised principal balance.

PLUS and SLS Loans

If the lender receives late notification that an SLS loan borrower or dependent student for whom a PLUS loan is obtained has ceased enrollment on at least a half-time basis before the lender's projected deferment end date—or the date the loan is fully disbursed, in the case of a multiply disbursed loan—the lender must:

- Correct the deferment end date on the loan to reflect the actual date on which the student was last enrolled at least half time.
- Cancel remaining disbursements, as applicable, and notify the guarantor that those funds will not be disbursed.
- Reschedule the borrower's first payment due date to a date that is no more than 45 days after the new deferment end date or no more than 75 days after the date on which the lender received the late notification, whichever is later.
- Apply an administrative forbearance for the period from the actual (new) deferment end date to the new first payment due date.
- Send a repayment disclosure to the borrower within 60 days after receiving the late notification. If the lender has already sent a repayment disclosure to the borrower, the lender may send a notice of the change in repayment terms to the borrower reflecting the adjusted due date, payment amounts, and revised principal balance, if applicable.

The unpaid interest that accrued on the borrower's loan from the actual deferment end date up to the new first payment due date may be capitalized.

7.4.D.
New Out-of-School Dates after Conversion

If a Stafford loan is already in repayment when the lender receives a new out-of-school date that results in a change of the date the lender used to convert the loan to repayment, the borrower's loan(s) must be adjusted. For example, the lender may need to reapply payments received, adjust previous interest and special allowance billings, and revise repayment terms. The lender must calculate a new repayment start date and, if necessary, a new first payment due date to coincide with the new out-of-school date.

Later Out-of-School Date

If the new out-of-school date shows that the borrower withdrew *later* than was originally reported, and the borrower's loan should still be in its grace or in-school period based on the new out-of-school date, the lender must correct the loan's status and later return the loan to repayment following the expiration of the new (actual) grace period.

If the loan is in repayment and is delinquent at the time the updated information is received, the establishment of a new first payment due date may reduce or eliminate the delinquency on the loan. The lender must recalculate the number of days delinquent from the new (actual) first payment due date and perform the appropriate due diligence activities based on the adjusted delinquency status. The lender must adjust interest and special allowance billings, revise the borrower's repayment terms to support the new information, and report the new information to the guarantor.

> EXAMPLE
> A borrower has a subsidized Stafford loan. The borrower's old graduation date was June 1993 with a 6-month grace period ending in December 1993. The first payment due date was established as February 1, 1994. The borrower made two timely payments for February and March, but the April payment is delinquent. The lender received new information from the school in May indicating that the borrower was still enrolled half time with an anticipated graduation date of June 1994.
>
> The lender should:
>
> - Change the previously reported graduation date to the new date verified by the school and report the new date to the guarantor.
> - Change the borrower's loan status to reflect an in-school status and report the change to the guarantor.
> - Reapply the payments to principal only and correct special allowance reporting.
> - Charge interest accruing between January 1, 1994, and March 31, 1994, to the Department by an adjustment to the lender's ED Form 799 for the next quarter.
> - Notify the borrower of the change to the account.

If payments are received and applied to a borrower's subsidized Stafford loan, and the lender later learns that the loan should not have been in repayment, all payments applied before the actual repayment start date must be reapplied to the principal balance. For a loan on which the accruing interest is not subsidized, the lender may apply those payments to satisfy outstanding accrued interest as of the date the payment was received, and then may apply any remaining funds to principal. Payments made before the actual repayment start date should be applied as prepayments and generally should not advance the payment due date (see subsection 7.8.B.).

If the new enrollment information provides a revised out-of-school date that falls within the same month, the lender must react to the change only if repayment terms have not yet been disclosed to the borrower. If terms have been disclosed, the lender need not react to the change, except to note receipt of the information in the borrower's file or the servicing history of the loan.

Earlier Out-of-School Dates

If the new out-of-school date is *earlier* than was previously reported, the lender must:

- Treat the period from the new (actual) repayment start date to the previously reported repayment start date as if the loan were in forbearance.
- Eliminate any delinquency using an administrative forbearance.

This process is called administrative forbearance because the lender provides a forbearance of payments without the borrower's request or approval. The lender may capitalize the interest accrued between the old repayment start date and the new (actual) date (see subsections 7.7.B. and 7.11.B.). If the loan was delinquent before the lender processed the new out-of-school date, the lender may not resolve that preexisting delinquency with the administrative forbearance.

EXAMPLE
A borrower has a subsidized Stafford loan. The borrower's previous graduation date was September 1993 with a 6-month grace period ending in March 1994. The borrower's first payment was scheduled for May 1, 1994; however, the borrower did not remit payments. The lender received information in June 1994 indicating that the borrower withdrew in June 1993. The end of the grace period must be revised to end in December 1993. The lender should:

- Change the previously reported graduation date to the new date verified by the school and report the new date to the guarantor.
- Adjust the borrower's grace period and first payment due date to coincide with the corrected out-of-school date, so that the due date falls no later than February 14, 1994 (the borrower's next payment due date should remain the same as the one on the account before the adjustments began).
- Apply an administrative forbearance for the period from the new grace period end date (December 31) through the previously reported grace end (March 31), capitalizing the interest accruing between those dates.
- Refund to the Department the interest that accrued on the subsidized Stafford loan between December 31 and March 31, which may be accomplished by adjusting the lender's ED Form 799 for the next quarter.
- Provide the borrower with a new repayment disclosure reflecting the actual new first payment due date and capitalized interest. The borrower's next due date does not change. However, depending on the amount capitalized, the payment amount may change.
- If the loan was delinquent before the receipt of the new out-of-school information, the lender should continue collection activities on the loan at the same point of delinquency that existed on the loan before the new information was received.

7.5 Repayment Notification

The lender must notify a Stafford or SLS loan borrower of repayment terms no less than 30 days, nor more than 240 days, before the date on which the first payment on the loan is due. A PLUS loan borrower must be notified of the actual or projected repayment terms before or at the time the loan is first disbursed. To satisfy this requirement, the lender must send the borrower (at no cost to the borrower) a repayment disclosure during the time frames specified by regulation and outlined in the following subsections 7.5.A., 7.5.B., and 7.5.C.

In conjunction with the repayment notification described in this section, a lender must offer a choice of a standard, graduated, or income-sensitive repayment schedule if a borrower's loan was disbursed on or after July 1, 1993. If a lender chooses to include this repayment choice with the repayment notification, the lender must ensure that the timing of this notice also meets the requirements of subsections 7.6.C. and 7.6.D.

The lender must convert the loan to repayment even if a borrower does not acknowledge the repayment disclosure. If the lender fails to provide disclosure information, this failure does *not*:

- Relieve a borrower of the obligation to repay the loan.
- Provide a basis for a claim for civil damages.
- Void the insurance or reinsurance obligation.
[§682.205(c) and (e); HEA 433(c)]

If the repayment disclosure for a Stafford or SLS loan borrower is returned to the lender as undeliverable, the lender is encouraged to resend the disclosure to the borrower in care of the borrower's parent(s) or legal guardian (if the address is known).

The lender also is encouraged to initiate skip tracing procedures at the time any Stafford, SLS, or PLUS loan repayment disclosure is returned undeliverable—rather than wait for the loan to become delinquent, at which point skip tracing is mandatory if not completed previously. See subsections 8.1.H. and 8.1.I. for more information on skip tracing requirements.

7.5.A. Notifying Stafford Loan Borrowers of Repayment Terms

In addition to the federal requirement that a lender send a repayment disclosure to a Stafford loan borrower within specified time frames (between 30 and 240 days before the first payment is due), guarantors recommend that the lender send a repayment reminder letter to the borrower at least 90 days before the grace period expiration date. Establishing solid contact with the borrower before repayment starts is critical to default prevention. Notifying the borrower during this 90-day time frame also gives the borrower the opportunity to do one of the following:

- Provide the lender with documentation that he or she has returned, or will return, to school before the expiration of the grace period.
- Make alternative repayment arrangements—such as graduated repayment or forbearance—if necessary.

Sending the repayment reminder letter may assist the lender in default prevention and reduce the administrative burden caused by prematurely converting the borrower's loan to repayment and then returning it to an in-school or grace status.

7.5.B. Notifying SLS Loan Borrowers of Repayment Terms

A lender must notify an SLS loan borrower of the payment amount and actual first payment due date no less than 30 days, nor more than 240 days, before the date on which the first principal payment is due. The lender may disclose the repayment terms with other disbursement disclosures at the time of the first disbursement.

The lender must clearly indicate to the borrower that the repayment information provided is based on the loan amount when fully disbursed and, if the loan enters an immediate deferment status, the deferment end date (such as the anticipated graduation date), the amount of interest to be capitalized between the first and final disbursement and the first payment due date. The lender is not required to redisclose this information if changes occur in disbursement dates or amounts or in the borrower's repayment or deferment status. A lender is encouraged to advise the borrower of any substantive changes made in the borrower's repayment obligation.

It is not sufficient to provide a statement that payments are deferred while the borrower is in school or to provide a repayment schedule covering only the interest payments that are to be made while the borrower is in school. [§682.205]

If repayment on an SLS loan is postponed to correspond with repayment on a Stafford loan, the lender should ensure that it provides the repayment disclosure in the required time frame.

7.5.C. Notifying PLUS Loan Borrowers of Repayment Terms

For a PLUS loan, the lender must disclose the estimated or actual repayment terms before or at the time the funds are first disbursed. The disclosure must be sent to the borrower—even if the loan will be placed into immediate deferment. The disclosure may be sent with the disbursement disclosure outlined in subsection 6.1.I. The lender does not satisfy this disclosure requirement by merely stating that payments will be deferred while the borrower or dependent student, as applicable, is in school—or by providing a repayment schedule that covers only interest payments to be made while the borrower's loan is deferred.

The lender should indicate to the borrower that the repayment information provided is based on the loan amount when fully disbursed and, if the loan enters an immediate deferment status, the deferment end date (such as the anticipated graduation date), the amount of interest to be capitalized between the first and final disbursement and the first payment due date. The lender is not required to redisclose this information if changes occur in the future disbursement dates or amounts or in the borrower's repayment or deferment status. A lender is encouraged to advise the borrower of any substantive changes made in the borrower's repayment obligation.

7.5.D.
Disclosure of Repayment Terms

Most guarantors provide repayment and disclosure statements for disclosing repayment terms to borrowers. A lender may use another written or electronic format suitable to its servicing systems and procedures (such as its own repayment disclosure form, coupon book, or billing statement) in lieu of a guarantor form. This format must include, at a minimum, the following elements:

- The lender's name and the address to which correspondence and payments should be sent.
- The lender's telephone number and, at the lender's option, an electronic address from which the borrower can obtain additional loan information.
- The scheduled date the repayment period begins.
- The estimated balance, including the estimated amount of interest to be capitalized, owed by the borrower as of the date the repayment period begins or the date of the disclosure, whichever is later.
- The actual interest rate on the loan.
- An explanation of any fees that may accrue or be charged to the borrower during the repayment period.
- The borrower's repayment schedule, including the due date of the first installment and the number, amount, and frequency of payments.
- Except in the case of a Federal Consolidation loan, an explanation of any special options the borrower may have for consolidating or refinancing the loan and the availability and terms of these other options.
- The estimated total amount of interest to be paid on the loan, assuming payments are made in accordance with the repayment schedule.
- A statement that the borrower has the right to prepay all or part of the loan at any time, without penalty.

For a PLUS or SLS loan, the lender is not required to provide the estimated total amount of interest to be paid on the loan if the lender provides the borrower with sample projections of monthly repayment amounts assuming different levels of borrowing and interest accruals resulting from capitalization of interest while the student is in school. Sample projections must disclose the cost to the borrower of principal and interest, interest only, and capitalized interest.

The repayment disclosure may contain a space for the borrower's signature and the date signed. However, the borrower is not required to sign and return the repayment disclosure.

In all instances, the initial repayment disclosure or any subsequent disclosure of the borrower's repayment terms must notify the borrower of capitalized interest, including the new principal balance and other changes in repayment terms (such as the monthly payment amount) resulting from the capitalization.

After the initial repayment disclosure is made, the lender may use any suitable format to redisclose subsequent repayment information to the borrower.
[HEA 433(c); §682.205(c)]

7.6
Repayment Terms

In providing a borrower's repayment schedule, the lender should consider the borrower's ability to pay. However, in all cases, the lender must establish terms that retire the debt in a reasonable manner and satisfy the repayment requirements specified by federal regulations. The borrower is entitled to prepay or accelerate the repayment of his or her loan without penalty.
[§682.205; §682.209]

7.6.A. Determining the Borrower's Indebtedness

A lender must accurately determine and disclose the amount of principal a borrower must repay. This amount should reflect any canceled disbursements, refunds received from the school, prepayments made by or on behalf of the borrower, accrued unpaid interest that has been capitalized (added to the principal balance), and changes to the interest rate of the loan.

The lender also must project the borrower's finance charge (the interest to be paid over the life of the loan). In all cases in which the capitalization of accrued unpaid interest is authorized, the lender may calculate the finance charge based on the new principal balance, which includes the capitalized interest.
[§682.205(c)]

7.6.B. Length of the Repayment Period

The maximum allowable repayment period is calculated from the date on which the first payment is due. A borrower is allowed at least 5 years, but no more than 10 years, from the date the first payment is due to repay each Stafford, SLS, and PLUS loan. For a Consolidation loan, the repayment period may extend up to 30 years depending on the initial balance on the loan (see subsection 9.5.B. for information on Consolidation loan repayment provisions). Multiply disbursed PLUS and SLS loans enter repayment on the date of the final disbursement of the loan.
[§682.200; §682.209(a)]

Periods of authorized deferment and forbearance are excluded from the maximum repayment period. As a result, granting a deferment or forbearance extends the overall length of time the borrower may have to repay the loan.

> EXAMPLE
> First Payment Due Date: March 1, 1995
> Number of Payments: 120
> Last Payment Date: February 1, 2005
>
> If a borrower obtains an in-school deferment from August 25, 1995, to May 25, 1996, the 120-month repayment period is extended by the length of the deferment (9 months). The new repayment period is 129 months, and the last payment due date is extended 9 months to November 1, 2005.

Depending on the type of repayment option selected by the borrower, the repayment schedule may not retire the full debt within the prescribed maximum repayment period. For information on repayment options, see the following subsection 7.6.C. A lender may provide the borrower with a period of forbearance to permit the loan payments to continue beyond the statutory maximum repayment period. A lender, under certain repayment options, is required to grant forbearance. For more information on forbearance, see section 7.11.
[§682.209(a)(7)]

Deferments and forbearances do not extend the period of repayment during which the interest on an 8%/10% Stafford loan accrues or is capped at 8%. Deferments and forbearances are included in the 4-year time frame for which the 8% interest rate is applicable on these loans.
[§682.202(a)(7)(vi)]

> EXAMPLE
> A borrower with a loan that accrues at an 8%/10% interest rate enters repayment on July 1, 1994. The borrower makes payments for 24 months, then defers the loan for 24 months. When repayment resumes, the loan will have aged to the 49th month of repayment, at which time the loan would normally change to the 10% rate. The interest rate will change based on requirements to convert certain fixed-rate loans to a variable rate, but the loan retains an interest rate cap of 10%.

A borrower is not entitled to the minimum 5-year repayment period if paying the required minimum annual payment amount (generally $600 per year) would result in the loan being paid in full in less than 5 years.
[§682.209(c)]

A lender may provide repayment terms that will cause a loan to be repaid in less than 5 years if the borrower requests those terms before the beginning of the repayment period. The borrower may, at any time during the remainder of the repayment period, make a written request to extend the repayment period to a minimum of 5 years unless the remaining balance on the loan can be completely repaid in less than 5 years at the minimum annual payment amount.
[§682.209(a)(7)]

7.6.C. Repayment Options

A borrower has three options for repaying a loan:

- Pay the outstanding balance (unpaid principal and accrued interest) in full.
- Pay any part of the outstanding balance in a lump sum payment and the remaining balance in regular (monthly or quarterly) principal and interest installments.
- Make regular installments on the entire outstanding balance.

The borrower may prepay all or a portion of the loan without penalty at any time.

If the borrower elects to repay the loan through regular installments, the lender must offer certain borrowers a choice of the following:

- A standard repayment schedule.
- A graduated repayment schedule.
- An income-sensitive repayment schedule.
- An extended repayment schedule.

Lenders must offer new borrowers who receive Stafford or SLS loans first disbursed on or after July 1, 1993, their choice of a standard, graduated, or income-sensitive repayment schedule no more than 6 months before the first payment due date. The details regarding the repayment schedule options are outlined in the following subsection 7.6.D. In addition, lenders must offer an extended repayment schedule to new borrowers with loans first disbursed on or after October 7, 1998, who accumulate outstanding FFELP loans totaling more than $30,000. This extended repayment schedule must provide a repayment period of no more than 25 years.

The lender also must offer a choice of repayment schedules to any individual whose Consolidation loan application and promissory note is received by the lender on or after January 1, 1993. For more information on Consolidation loan repayment, see section 9.5.

Guarantors encourage lenders to offer all borrowers a choice of repayment schedules.

A borrower must select a repayment schedule within 45 days of the lender's notification and advise the lender of that choice. If a borrower does not respond within 45 days—or selects an income-sensitive repayment schedule but does not provide the required documentation—the lender must establish a standard repayment schedule. A borrower also may request a change in his or her repayment schedule. A lender must comply with an eligible borrower's request to revise his or her choice of repayment schedule at least once every 12 months.

A lender may require that all FFELP loans owed by a borrower to the lender be combined into one account and repaid under a single repayment schedule. If a lender services loans in this manner, the word "loan" in this section means all of the borrower's loans that were combined by the lender into that account. However, for NSLDS reporting, the Department requires that a lender maintain repayment records for each loan—even though the lender combined the loans into a single repayment schedule.
[§682.209(a)(6)(ix)]

Minimum Payment Requirements

Federal regulations outline specific requirements for the minimum annual amount the borrower must pay on a loan. Unlike the maximum repayment period, which is loan specific, a minimum annual payment amount applies to all of the borrower's loans. Minimum annual payment amounts vary according to when the loan was first disbursed:

- For loans first disbursed on or after October 1, 1981, the minimum annual payment amount for all of a borrower's loans during any year of repayment must be the lesser of $600 or the outstanding balance of the loans including interest.
- For all loans first disbursed before October 1, 1981, the minimum annual payment amount for all of a borrower's loans during any year must be the lesser of $360 or the outstanding balance of the loans including interest.

Because minimum annual payment amounts apply to a borrower instead of to each loan, a lender may prorate a minimum payment across all of a borrower's loans. As a result, the monthly payment on an individual loan may be less than $50 or $30 (the monthly equivalent of the $600 and $360 annual minimums, respectively). The lender may round the borrower's payment(s) to the next highest whole dollar amount that is a multiple of $5 (when the payment amount is not a multiple of $5).
[§682.209(a)(8)]

A lender may permit a borrower to make smaller payments than otherwise required if the reduced scheduled monthly payment amount equals at least the amount of interest due on the loan. This option may be provided only on a short-term basis, and a lender should ensure that the reduced payments do not cause subsequent repayment schedules to require any single payment amount to exceed any other payment amount by more than three times in cases where this is prohibited (see below).

If the borrower and lender agree, the borrower may pay less than the minimum annual amount as long as the loan(s) will be repaid fully within the maximum repayment period. The lender must document the terms and conditions of the revised agreement in the borrower's file or servicing history. If the reduced payment amount will result in the repayment period extending beyond the allowable maximum, the lender must grant a reduced payment forbearance and obtain the borrower's signature on the forbearance agreement (see subsection 7.11.A.).
[HEA 428(b)(1)(L)(i)]

In all cases where a graduated or income-sensitive repayment schedule is established, federal regulations require that no single installment be more than three times greater than any other installment (the "three-times rule"). When a lender establishes the minimum payment amount on a loan under an income-sensitive repayment schedule, a lender must consider the borrower's ability to pay, without violating the "three-times rule."
[§682.209(a)(6)(ii)]

For loans that are repaid under a graduated or an income-sensitive payment plan, the $360 and $600 annual payment requirements do not apply. However, in no instance may the payment amount be less than the amount of interest due and payable.
[HEA 428(b)(1)(L)(i); §682.209(c)]

7.6.D. Repayment Schedules

Standard Repayment Schedule

When a lender establishes a standard repayment schedule, the lender should schedule the borrower's payment amounts to be one of the following:

- An installment amount that is the same amount for each installment payment made during the repayment period, except that the borrower's final payment may be slightly more or less than the other payments.

- An installment amount that will be adjusted to reflect annual changes in the loan's variable interest rate.

The lender must require the borrower to repay the loan under a standard repayment schedule if the borrower meets either of the following criteria:

- The borrower does not select an income-sensitive or a graduated repayment schedule within 45 days after being notified by the lender to choose a repayment schedule.

- The borrower chooses an income-sensitive repayment schedule but does not provide the documentation requested by the lender within the time period specified by the lender.
  [§682.209(a)(6)(v) and (vi)]

Graduated Repayment Schedule

When a lender establishes a graduated repayment schedule, the amount of the borrower's installment payment is scheduled to change (usually increasing) over the repayment period. When establishing these payment amounts, a lender should ensure that no single installment is more than three times greater than any other installment.

A lender is not required to have a separate payment agreement with the borrower if the graduated repayment schedule provides for the borrower to pay less than the minimum annual payment amount.
[§682.209(a)(6)(vii)]

Income-Sensitive Repayment

If a borrower selects an income-sensitive repayment schedule, the borrower must provide the lender with information on the expected total gross monthly income the borrower receives from all sources. Except for a spousal Consolidation loan, expected total monthly gross income from all sources does not include income earned or received by a borrower's spouse.

To ensure the income information is current, the borrower cannot provide the income information any earlier than 90 days before the first payment due date. If the borrower's loan entered repayment without the lender's knowledge, the lender may obtain the income information earlier than 90 days before the first payment due date.

The lender will determine whether the borrower qualifies for an income-sensitive repayment schedule based on the borrower's expected total monthly gross income. If the borrower reports income the lender considers insufficient to establish a monthly payment that will repay the loan within the maximum 10-year repayment period, the lender must request documentation showing the amount of the most recent total monthly gross income from employment and other sources received by the borrower. This can include, if applicable, pay statements from employers and documentation of any income received by the borrower from other parties.

The lender must collect and review the borrower's income documentation annually and adjust the borrower's payment amount accordingly. To ensure income information is current, the borrower cannot provide the information any earlier than 90 days before the payment is scheduled to be adjusted.

The lender must inform the borrower that the loan must be repaid within the maximum repayment period allowed. However, the lender must grant a forbearance to the borrower—or endorser, if applicable—for a period of up to 5 years in cases where the effect of decreased installment amounts paid under an income-sensitive repayment schedule would result in a loan not being repaid within the maximum repayment period (see subsection 7.11.D.). [§682.209(a)(6)(vii)]

Extended Repayment Schedule

The extended repayment schedule is limited to new borrowers with loans first disbursed on or after October 7, 1998. To be eligible for this repayment schedule, the borrower must accumulate outstanding FFELP loans totaling more than $30,000. The lender may schedule the borrower for standard or graduated installments over a period not to exceed 25 years, but must ensure that annual payments total at least $600 or the outstanding balance of the loan, whichever is less.
[HEA 428(b)(9)(A)(iv)]

7.6.E. Adjusting the Borrower's Repayment Terms

In some cases, the lender may be required to adjust the borrower's repayment terms. Typically, this may occur in any of the following cases:

- The interest rate changes on a variable rate loan or an 8%/10% Stafford loan after it has been converted to the variable rate.
- The interest is capitalized.
- The borrower selects an income-sensitive repayment schedule.
- The borrower requests a change in his or her repayment schedule. A lender must comply with an eligible borrower's request to revise his or her choice of repayment schedule at least once every 12 months.

For more information on changing a borrower's installment amount in response to a change in the variable interest rate, see subsection B.2.

In adjusting the borrower's repayment terms, the lender generally has two options:

- Keep the number of installments the same and change the borrower's installment amount.
- Keep the installment amount the same and change the borrower's repayment period.

An increase in the variable interest rate of a Stafford, PLUS, or SLS loan may result in the loan not being fully repaid within the maximum repayment period, unless the lender increases the borrower's installment amount by an amount that violates the "three-times rule." In such cases, the lender may delay increasing the borrower's installment amount immediately to allow for future rate fluctuations that result in lower interest rates.

For a borrower with a standard or graduated repayment schedule, the lender must grant a mandatory administrative forbearance to the borrower (or endorser, if applicable) for a period of up to 3 years of payments in cases where the effect of a variable interest rate would result in a loan not being repaid within the maximum repayment period allowed.
[§682.209(a)(6)(i)(B)]

In cases where the effect of decreased installment amounts paid under income-sensitive terms would result in a loan not being repaid within the maximum repayment period allowed, the lender must grant a mandatory administrative forbearance to the borrower (or endorser, if applicable) for a period of up to 5 years.
[§682.209(a)(6)(viii)(D); §682.211(j)(5(ii)]

7.7 Interest Charges

If a borrower's loan is a subsidized Stafford loan, the federal government pays the interest that accrues during the in-school, grace, and authorized deferment periods. If the loan is an unsubsidized or nonsubsidized Stafford loan, PLUS loan, or SLS loan, the borrower is responsible for paying all interest that accrues on the loan from the first disbursement date—including interest that accrues during deferment periods. For information on the interest charges applicable to Consolidation loans, see subsection 9.3.D. and section 9.6.
[§682.202; §682.300]

Annual Variable Interest Rate Charges

When servicing a variable-rate Stafford, SLS, or PLUS loan, a lender must adjust the interest rate annually on July 1 in accordance with interest rates established by the Department. The variable interest rate for a loan is based on the type of loan and the disbursement date. For more information on how a loan's variable interest rate is determined, see subsections 6.1.D. and 6.1.F.

The adjustment to the variable interest rate on a loan may affect the monthly payment amount and the borrower's overall repayment terms. Refer to subsection 7.6.E. for more information on adjusting the borrower's repayment terms.

Guarantors recommend that the lender inform the borrower of the variable interest rate change. The lender must inform the borrower of any changes in the payment amount.

For more information on current and past variable interest rates, refer to appendix H.

Excess Interest Rebates

In 1986 and 1992, Congress required lenders to refund interest to certain Stafford loan borrowers under specific circumstances. The process of refunding interest is commonly referred to as excess interest rebates or "windfall profits."

This requirement affected certain Stafford loan borrowers with fixed rates of 7%, 8%, 9%, or 8%/10%. Until January 1, 1994, lenders were required to make excess interest rebates. On or before January 1, 1995, lenders were required to convert fixed-rate Stafford loans that were eligible for interest rebates to a variable interest rate. Loans that are converted to a variable interest rate under these provisions require lenders to adjust the interest rate annually on July 1.

For more information about which Stafford loans were eligible for excess interest rebates, and converting these loans to a variable interest rate, see section H.2.

7.7.A.
Payment of Accrued Interest on Loans Not Eligible for Federal Interest Benefits

A lender must arrange with the borrower of a loan that is not eligible for federal interest benefits (an unsubsidized or nonsubsidized Stafford, PLUS, or SLS loan) the way in which the borrower will pay accruing interest during periods when regular principal payments are not due. Interest begins accruing on the date of the first disbursement and may become a substantial sum over the course of a long period of continuous enrollment or deferment. The loan file or servicing history must include documentation of the agreement (between the lender and borrower) for the borrower to satisfy the interest by one of the following methods:

- Monthly or quarterly interest payments, in which the borrower pays the interest as it accrues.
- Capitalization as permitted by federal regulations and the terms of the borrower's promissory note. The borrower repays the accrued interest as part of his or her regular repayment period.
- A single lump sum payment at the end of a deferment period or when repayment of principal begins or resumes.

The application and promissory note provides the borrower the opportunity to indicate how accrued interest will be paid.

7.7.B.
Capitalization of Accrued Interest

Capitalization of interest on all FFELP loans is permitted under the terms of the application and promissory note and federal regulations. A lender capitalizes interest by adding accrued interest to the loan's principal balance.

A lender may capitalize unsubsidized interest that accrues during:

- An in-school period or grace period, if capitalization is expressly authorized by the promissory note (or with the written consent of the borrower).
- A period of authorized deferment or authorized forbearance.

A lender may capitalize the interest that accrues during in-school, grace, deferment, and forbearance periods no more frequently than quarterly, and again when repayment is scheduled to begin or resume.

A lender may capitalize interest that accrues during the following periods only on the date repayment of principal is scheduled to begin:

- During the period from the date the first disbursement was made to the beginning date of the in-school period.
- During the period from the date the first installment payment was due to the date it is made.
- During a period when the borrower's loan was in repayment, but the borrower made no payments because:
  - The lender received late notification that the borrower withdrew or ceased to be enrolled on at least a half-time basis, as applicable, from the school before the lender's projected deferment end date, out-of-school date, or date on which the loan is fully disbursed.
  - The lender learned after the fact that the borrower or a dependent student (based on whose status a PLUS loan borrower obtained the deferment) did not maintain in-school deferment eligibility.

For PLUS and SLS loans, a lender must require the borrower to pay interest on a monthly or quarterly basis or, with the borrower's written consent, may capitalize on a quarterly basis interest that has accrued during periods in which the borrower is pursuing:

- A full-time course of study at an eligible school.
- At least a half-time course of study (as determined by the school) during an enrollment period for which the student has obtained a FFELP loan.
- A course of study pursuant to a graduate fellowship program approved by the Department.
- A rehabilitation training program for disabled individuals that is approved by the Department.

A lender also is permitted to capitalize the outstanding accrued interest—no more frequently than quarterly or as specified by the terms of the promissory note—in the following instances without the written consent of the borrower:

- For the period between the original repayment start date and the revised start date—if, after converting a Stafford loan to repayment, the lender learns of a new out-of-school date that is earlier than was previously reported.
- For a period during which payments were made but subsequently returned due to a borrower's death or total and permanent disability.
- For the period during which the collection activities on a loan were suspended pending *(a)* the receipt of documentation of a death, disability, closed school, or false certification claim or *(b)* the outcome of a bankruptcy action, closed school, or false certification discharge determination.
  [§682.202(b)]

Guarantors strongly encourage a lender to capitalize a borrower's outstanding accrued interest in all cases in which capitalization is permitted in order to prevent delinquency.

Capitalization of Delinquent Interest Payments

If a borrower with an unsubsidized or nonsubsidized FFELP loan fails to fulfill an agreement to make interest-only payments during the in-school, grace, deferment, or forbearance period, the lender:

- Must notify the borrower that he or she has 30 days to remit the delinquent interest payment unless the notification was provided to the borrower on the application and promissory note, repayment schedule, deferment or forbearance form, or other written notification provided to the borrower in the course of servicing the loan.
- May capitalize the accrued interest for the in-school, grace, deferment, or forbearance period, if the borrower does not pay the interest within the 30-day period. The lender may continue to capitalize interest no more frequently than quarterly during the balance of the in-school, grace, deferment, or forbearance period.

In most cases, a lender may not file a default claim solely due to delinquent interest. See subsection 8.2.A. for more information on allowable interest-only default claims.

If the lender cannot notify the borrower of the interest payment delinquency because of an unresolved bad address, the lender may capitalize the delinquent interest without notification if that payment remains outstanding and unpaid for a period of 30 days.

7.8
Application of Borrower Payments and School Refunds

A lender must ensure that all payments and refunds made by or on behalf of a borrower are posted accurately and promptly to the borrower's loan in accordance with the requirements of this section.

7.8.A.
Regular Payments

A lender may apply a payment received first to any accrued late charges or permissible collection costs, then to outstanding interest, and finally to outstanding principal. Permissible collection costs may include charges incurred by the lender in collecting a missed payment, including court costs and attorneys' fees. The lender may not apply a borrower's payment to "normal" collection costs, such as those associated with preparing and mailing notices and letters, personal contacts, and telephone calls. Regardless of how those monies are applied with respect to principal, interest, late charges, or collection costs, any payment received during a period when a borrower is required to make payments that equal or exceed the borrower's scheduled payment amount must be used to advance the borrower's due date. When appropriate, any amount that exceeds the borrower's scheduled payment amount should be applied as a prepayment, as outlined in subsection 7.8.B.
[§682.209(b)]

The lender may advance the due date on the loan if the borrower makes a payment that is within $5 of the amount due or of the regularly scheduled payment amount if the application of a $5 tolerance will prevent a paying borrower from becoming delinquent or prevent a delinquent borrower from defaulting. The determination of whether to apply a $5 tolerance and whether the tolerance is based on the regularly scheduled payment amount or on the total amount due must be based on the lender's established policy. However, regardless of the lender's $5 tolerance policy, any time the lender receives an amount that equals or exceeds the regularly scheduled payment amount, the lender must advance the due date for the number of full regularly scheduled payments received. The lender must apply its policy for advancement of due dates consistently.
[§682.202(f) and (g); §682.411; DCL 96-L-186/96-G-287, Q&A #46, and May 1996 supplement to the DCL]

7.8.B.
Prepayments

A borrower may prepay his or her loan in full or in part at any time, without penalty and without liability for unearned interest. The lender may credit the entire prepayment amount first to any late charges accrued or collection costs, then to any outstanding interest, and then to outstanding principal.
[§682.209(b)]

If the outstanding principal balance of the borrower's loan is calculated under the Rule of 78s method and the borrower makes a prepayment, the borrower may be entitled to a rebate of unearned interest already paid.

A prepayment is a payment that is received:

- For a subsidized Stafford loan or a Consolidation loan eligible for interest benefits, during a period when the borrower is not responsible for making payments of either principal or interest (during in-school, grace, and authorized deferment periods).
- During a period when the borrower is responsible for paying only accruing interest (such as during a period of deferment or forbearance) and for which the borrower has previously authorized the lender to capitalize the accruing interest.
- During a period when the borrower is responsible for making payments of both principal and interest and the payment received is greater than the amount of the borrower's regular installment.
- During a bankruptcy proceeding if the borrower is not responsible for making loan payments.
- For the entire ineligible portion of a loan that the borrower has repaid in response to a final demand letter—if the borrower is only partially ineligible for the loan (see section 7.12).

Unless the borrower requests otherwise, a prepayment received during a period when regular payments are due must be applied to future installments if the payment received equals or exceeds the regularly scheduled payment amount. The lender must notify the borrower that the prepayment has been used to satisfy future installments in one of the following ways:

- Notifying the borrower *in advance* using a prominent statement in the borrower's coupon book or billing statement that any additional full payment amounts submitted to the lender without instructions will be applied to advance the due date on the loan.

- Notifying the borrower *after* the prepayment has been applied of how the payment was applied and the borrower's next scheduled payment due date.

If the borrower makes a prepayment during a period of enrollment, grace, deferment, or forbearance and provides no instruction regarding application of the prepayment, the lender may use that payment to advance the payment due date. If a prepayment is applied during these periods, the lender is encouraged to provide notice to the borrower of the way in which the prepayments are applied. [§682.209(b)]

The loan's servicing history must reflect any borrower's request regarding the application of prepayments and the manner in which the prepayments were applied. The lender is not required to maintain payment coupons or submit documentation with a claim to validate the prepayments. However, the guarantor may require the lender to provide documentation of any borrower request regarding the application of payments as part of a program review or to substantiate a claim in the event of a borrower dispute.

7.8.C. Changing the Borrower's Payment Due Date

Once a lender establishes a borrower's payment due date and the borrower begins making payments, the lender may—at its discretion or at the borrower's request—reschedule the payment due date for a different day of the month. The lender may advance the date up to one calendar month without requiring a signed forbearance agreement. For example, on a loan for which a payment is due February 25, the lender may advance the due date to March 24.

If a change in the borrower's payment due date would bring the loan current (by eliminating any delinquency that exists on the loan) or require the lender to forego due diligence activities, a signed forbearance agreement from the borrower is required.

EXAMPLE
A borrower's payment is due on the first of each month, and the borrower owes the January 1 payment. On February 10, the borrower requests that his or her payment due date be changed to the 15th of each month. The lender may negotiate a forbearance that requires no payment and capitalize the outstanding interest to bring the account current through February 15, with the next payment due March 15.

If a payment due date is being changed at the lender's option (for example, due to the lender's conversion to a new servicing system), the borrower must be notified of the change early enough to comply with the new terms. The lender may develop its own format for disclosing repayment information or may use a form provided by the guarantor. [§682.208(d)]

7.8.D. Payments during Deferment or Forbearance

If a borrower who is not required to make payments during a period of authorized deferment or forbearance sends one or more payments, the lender may advance the due date for the number of payments received. If prepayments are applied during these periods, the lender is encouraged to provide the borrower with a notice of the way in which the prepayments are applied. See subsection 7.8.B. for additional requirements for providing the notice to the borrower.

7.8.E. School Refunds

A school refund must be applied to the unpaid principal balance of the loan but must not affect the borrower's next payment due date. The lender must reduce the guarantee fee and origination fee proportionate to the refund amount. If the lender paid the guarantee fee or origination fee instead of deducting the fee from the borrower's loan, the lender may retain the fee and is not required to refund the fee to the borrower. The lender must notify the guarantor promptly whenever a school refund is applied to a loan and must provide the amount of the refund and the date the refund was received from the school. The lender may provide notification using a guarantor's loan status change document or an equivalent tape file or electronic exchange. See subsections 6.6.D. and 6.6.F. for more information about the refund of guarantee and origination fees. [§682.202(c)]

Some guarantors have alternative requirements regarding the application of school refunds. These requirements are noted in appendix C.

A refund that is received during the in-school period of the loan may be an indication that the borrower's enrollment status has changed. As a result, the lender should verify that the borrower remains enrolled, unless the school already has provided this information.

Lenders may—but are not required to—verify the enrollment status of the borrower after receiving funds from the school, when those funds are designated as an overaward.
[§682.209(i)]

If the lender receives a school refund for a loan it no longer holds (including a loan discharged by refinancing or consolidation), the lender must transmit the amount of the refund to the new holder within 30 days of the lender's receipt of the funds. The transmission also must be accompanied by an explanation of the source of the refund, the reason for which the refund has occurred (if noted by the school), and the date the lender received the refund. The new holder must apply the refund to the borrower's unpaid principal balance with an effective date that reflects the date the previous holder received the refund from the school. The new holder also must notify the borrower promptly in writing that the refund has been received.
[§682.209(i)]

If the lender applies a school refund after it has established the borrower's repayment terms, the lender is strongly encouraged to recalculate the repayment terms when doing so will result in a reduced payment amount. If the lender recalculates the repayment terms and the borrower's payment amount is reduced due to the refund, the lender must provide the borrower with a revised repayment disclosure.

Under no circumstances should the lender advance the borrower's payment due date as a result of the refund.

School requirements for processing refunds are outlined in section 4.7.

7.9
Authorized Deferments

Once the repayment period has begun, the borrower is entitled to defer principal payments on a FFELP loan when applicable eligibility criteria are met. In the case of a Stafford loan, the borrower may not be granted a deferment until after the loan's grace period has expired. However, the borrower may—and in some cases may be required to—request that the grace period be waived or shortened in order to be eligible for the deferment (see subsection 7.10.L.).

A lender is not required to grant a deferment if it has information indicating that the borrower is ineligible for the deferment. If the lender denies the borrower the deferment, it must clearly document the reason for the denial in the loan file or servicing history.

A lender's failure to act on any borrower request for deferment within 30 days of its receipt may result in a returned or rejected claim, if the loan is later submitted as a claim.
[§682.208(c)(1)]

The Department has indicated that deferments generally are borrower specific—not loan specific. However, if all of the borrower's loans are paid in full and the borrower subsequently obtains a new loan, the borrower is eligible for all deferments applicable to that loan, despite any previous periods of deferment. For example:

- A borrower has used 36 months of unemployment deferment on loans A and B, then obtains additional loans. The borrower is not eligible for an additional unemployment deferment, even if loans A and B are subsequently paid in full.

- A borrower has used 36 months of unemployment deferment on loans A and B, then pays both loans in full. After both loans are paid in full, the borrower obtains new loans. The borrower is eligible for an additional 36 months of unemployment deferment.
  [§682.210(a)(1)(ii)]

7.9.A.
Conditions for Authorized Deferment

There are several conditions that entitle borrowers to deferment. In granting a deferment, the lender should be aware of the following general characteristics of deferments:

- Deferments are entitlements. Generally, if a borrower demonstrates eligibility for a deferment and provides the lender with the necessary documentation required to establish eligibility, the borrower may not be denied the deferment.

- The borrower's eligibility for a deferment depends on the borrower's meeting specific criteria, the type of loan for which the deferment is being sought, and the date on which the borrower received his or her first FFELP loan.

- If the dependent student for whom a parent borrower obtained one or more PLUS loans meets the conditions required for the in-school, graduate fellowship, or rehabilitation training deferment, the parent borrower may defer all of his or her PLUS loans based on the status of that one student—provided the parent was a "new" borrower before July 1, 1993 (see "Borrower Eligibility" later in this subsection).

- If a PLUS loan is made to two parents as comakers or a Consolidation loan is made to spouses as comakers, the loan may not be deferred unless each comaker requests deferment and satisfies applicable eligibility requirements for deferment. If each comaker qualifies under a separate deferment provision, the lender may defer the loan under one of those deferment types.

- Endorsers are not entitled to deferment. If an endorser is repaying the loan and has temporary difficulty in continuing repayment, he or she may request a forbearance.
  [§682.210(a)(11)]

- It is the borrower's responsibility to request a deferment, either verbally or in writing, and to provide the lender with documentation necessary to support the borrower's eligibility for the deferment. However, if at any time during the collection efforts the lender becomes aware of circumstances indicating that the borrower may qualify for a deferment, the lender must explain the deferment criteria and make the deferment option available to the borrower. Deferment eligibility criteria and documentation are outlined under each deferment type in section 7.10.

- The borrower must inform the lender promptly when the condition entitling the borrower to a deferment no longer exists.

- A lender must not deny a borrower a deferment to which the borrower is entitled—even if the loan is delinquent. A borrower who has not yet defaulted must be granted a deferment if the borrower qualifies. For more information on deferments and delinquent loans, see subsection 7.9.D.
  [§682.209(a)(7)]

- If a borrower's loan is in default, and his or her deferment eligibility begins *after* the date of default (the 180th day of delinquency for loans repayable in monthly installments), the borrower must make payment arrangements acceptable to the lender to resolve the default prior to the payment of a default claim by the guarantor in order to be considered eligible for the deferment (see subsection 7.9.E.).
  [§682.209(a)(8)]

- A deferment begins on the date the condition entitling the borrower to the deferment first exists. However, a deferment may begin no more than 6 months before the date the lender receives the borrower's request for the deferment and the information and documentation required for the deferment—provided the borrower qualified for the deferment for that period.

- An authorized deferment period ends on the earliest of the following dates:

  - The date the condition establishing a borrower's eligibility for the deferment ends.

  - The date the borrower has used the maximum amount of time allowed for that type of deferment.

  - The expiration of the period covered by the required certification.

  - In the case of an in-school deferment (called a student deferment on the most recent common deferment form), the student's anticipated graduation date as indicated on the application and promissory note and updated by notice to the lender from the school or guarantor. For more information on student or in-school deferments, see subsection 7.10.A.
    [§682.210(a)(6)]

- If a borrower's subsidized Stafford or Consolidation loan is eligible for federal interest benefits, the borrower is not responsible for paying the interest that accrues on the loan during eligible deferment periods and post-deferment grace periods. If the borrower is not entitled to interest benefits, the borrower is responsible for paying the interest that accrues during periods of deferment and making arrangements with the lender to pay the interest in installments or to have it capitalized.

Borrower Eligibility

Various types of deferments are outlined on the Deferment Eligibility Chart in section 7.10. In some cases, a borrower must be a "new borrower" to be eligible for certain types of deferments. The Department has established two "new borrower" categories that determine a borrower's eligibility for certain types of deferments. Each of these categories of borrowers is eligible for a distinct set of deferments.

- *New borrower July 1, 1987, to June 30, 1993*
  A borrower who, on the date he or she signed the promissory note, had no outstanding balance on:
  - A Stafford, SLS, or PLUS loan disbursed before July 1, 1987, for a period of enrollment beginning before July 1, 1987.
  - A Federal Consolidation loan that repaid a loan disbursed before July 1, 1987, for a period of enrollment beginning before July 1, 1987.
- *New borrower July 1, 1993*
  A borrower who:
  - Has no outstanding principal or interest balance on a FFELP loan as of July 1, 1993, or on the date the borrower obtains a loan on or after July 1, 1993.
  - Obtains a Consolidation loan on or after July 1, 1993, if the borrower has no other outstanding FFELP loans when the Consolidation loan was made.

Once a borrower is considered to be a "new borrower" in one of the preceding categories, the borrower remains eligible for the deferments in that category on all subsequent loans. Once the loans that qualified the borrower as a "new borrower" in one category are paid in full (except through consolidation), the borrower will be eligible for deferment based on provisions effective for new loans he or she obtains.

The lender should determine a borrower's deferment eligibility, based on borrower information contained in the lender's records and any information provided by the borrower, before approving a deferment for that borrower. The lender may rely on the borrower's certification, as evidenced by the borrower's signature on the deferment form or other documentation or certification provided by the borrower, that he or she meets the deferment eligibility criteria. If the lender is aware of any conflicting information related to the borrower's deferment eligibility, the lender must resolve the discrepancy before approving or denying the deferment.

If, after approving the deferment, the lender receives information indicating that the borrower did not qualify for all or a portion of the deferment, the portion of the deferment for which the borrower did not qualify must be canceled. The lender must make any necessary interest adjustments to the borrower's account. The lender may grant administrative forbearance to cover past due payments resulting from the cancellation of all or part of the deferment. See subsection 7.11.B. for information regarding the application of administrative forbearance.

7.9.B.
Documentation Required for Authorized Deferments

A lender may accept a borrower's verbal request for deferment. However, the lender may not grant the deferment until it receives the required documentation from the borrower. The lender must document a borrower's request and eligibility for a deferment and retain the documentation as required under subsection 3.4.A.

Common Deferment Forms

There are currently eight common deferment forms, each of which is generally known by the short abbreviation featured prominently in the top left corner of each form.

The following common deferment form may be used for any borrower:

> **UNEM**
> Unemployment Deferment Request

The following common deferment forms may be used only if all of the borrower's outstanding FFELP loans were made on or after July 1, 1993:

NEW EDU
Education Related Deferment Request

NEW HRD
Economic Hardship Deferment Request

The following common deferment forms may be used only if a borrower has one or more outstanding FFELP loans that were made before July 1, 1993:

DIS
Temporary or Permanent Total Disability Certification Request

EDU
Education Related Deferment Request

FAM
Family Deferment Request

PUB
Public Service Deferment Request

SCH
In-School Deferment Request

The common deferment forms—which are exhibited in appendix F—are used widely for obtaining the signatures and information necessary to grant deferments. However, the lender is encouraged to be flexible in accepting information that would support a borrower's deferment entitlement. The lender may use combinations of verbal requests and documentation from the borrower, school, or guarantor—provided the documentation supplies sufficient information to ensure that the borrower meets all eligibility criteria.

7.9.C.
Reporting Deferments

A lender must report each deferment to the appropriate guarantor, including the type of deferment granted and the deferment begin and end dates. When a deferment ends, the lender must notify the guarantor of the new loan status, the effective date of the status, or any deferment extension and the new deferment end date. For more information on reporting loan status changes, see subsection 3.5.D.

7.9.D.
Deferment of Delinquent Loans

In many cases, backdating a deferment (as permitted) will remove any delinquency that exists on a borrower's loan before the deferment's effective date. If this is not the case, the lender is encouraged to grant an administrative forbearance to cover the existing delinquency and bring the loan current to the point at which the deferment begins. If the lender does not grant the borrower forbearance, a borrower resumes—when the deferment or post-deferment grace period expires—any delinquency status that existed when the deferment period began.
[§682.210(a)(7)]

7.9.E.
Deferment of Defaulted Loans

A lender must grant deferment if the required deferment request and documentation are received after a loan enters default but the borrower's deferment eligibility began before default. The lender must process the deferment and recall the default claim (if one was filed) as outlined in section 8.5. If the loan has been purchased as a default, the lender may be required to repurchase the loan as outlined in section 8.7.

A borrower who has defaulted on a loan is not eligible for a deferment that begins after the date of default, unless the borrower makes payment arrangements acceptable to the lender that resolve the default prior to the payment of a default claim by the guarantor. Following are examples of payment arrangements the lender may wish to consider acceptable:

- An administrative forbearance applied in conjunction with a deferment.
- A signed forbearance agreement for the entire period of delinquency not covered by the deferment.
- Payments sufficient to fulfill delinquent payment amounts.
- A combination of forbearance and payments.
- A new signed agreement to repay the debt submitted with a deferment form to permit the lender to grant forbearance for the preexisting delinquency.

If a claim has been filed on the loan, the lender may be required to recall or repurchase the claim, as appropriate (see sections 8.5 and 8.7, respectively).

7.9.F.
Post-Deferment Grace Period

If any of a borrower's loans were first disbursed before October 1, 1981, the borrower is entitled to defer principal payments during a 6-month post-deferment grace period on those loans. The post-deferment grace period begins on the first day after an authorized deferment ends (when the borrower's deferment eligibility or the maximum time limit for the deferment expires). The post-deferment grace period expires on the day that is six consecutive months from the date it began. The repayment period of the loan resumes or begins on the day after the post-deferment grace period expires.

An eligible borrower may receive a post-deferment grace period after each deferment period or combination of periods—except after unemployment deferments. A borrower may receive a post-deferment grace period only once following a period of unemployment deferment. The borrower may waive in writing any or all of his or her post-deferment grace. That post-deferment grace may not be used later.

A borrower that is eligible for interest benefits during a period of deferment is eligible for that subsidy during the post-deferment grace period.

A lender may encounter a situation in which some—but not all—of a borrower's loans qualify for the post-deferment grace period. If the borrower does not waive the post-deferment grace period on the eligible loans, or if the loans will not enter repayment at the same time for other reasons (such as different repayment start dates), the lender may grant forbearance to align the repayment start dates of the loans. The borrower must authorize the forbearance in writing, which is accomplished when the borrower signs any new common deferment form.

7.9.G.
Resuming Repayment after Deferment

A borrower's first payment after deferment must be due no later than 45 days—plus the permissible 30-day extension in the case of a Stafford loan, as outlined in subsection 7.4.B.—following the date on which an authorized deferment ends, unless the borrower makes payments during the deferment period. For information on payments made during deferment, see subsection 7.8.D.

A lender may grant an administrative forbearance to resolve any delinquency before a borrower's deferment period begins. If the lender grants the borrower a forbearance, the loan should enter repayment after the deferment with a payment due date following the deferment end date. For information on deferment of delinquent loans, see subsection 7.9.D.

The borrower must be notified of interest capitalized as a result of the deferment, including the new principal balance and any other repayment term changes (such as a new monthly payment amount) that result from the capitalization. The lender may develop its own format for disclosing the information or use the guarantor's repayment schedule and disclosure statement.

7.10
Deferment Types

The following subsections 7.10.A. through 7.10.Q. outline the various types of deferments available to FFELP loan borrowers. The Deferment Eligibility Chart on the next page may help lenders and schools determine which loan types and borrower categories are covered by each deferment option. The abbreviation for the applicable common deferment form is provided; this abbreviation matches the code found at the top left corner of each common deferment form (see sample forms in appendix F of this manual). The chart also provides any applicable time limits for each deferment.

DEFERMENT ELIGIBILITY CHART

Form	Deferment Type	Time Limit	Stafford and SLS Loans			PLUS Loans				Consolidation Loans	
			Pre 7/1/87 Borrower	New[1] Borrower 7/1/87 to 6/30/93	New[2] Borrower 7/1/93	Loans Before 8/15/83	Pre 7/1/87 Borrower	New[1] Borrower 7/1/87 to 6/30/93	New[2] Borrower 7/1/93	Borrower Consolidates Before 7/1/93	New[2] Borrower 7/1/93
SCH or NEW EDU	In-School: Full-Time	None	•	•	•	•[3]	•[3]	•[3]	•[4]	•	•
	In-School: Half-Time	None		•	•			•[3]	•[4]	•	•
EDU or NEW EDU	Graduate Fellowship	None	•	•	•	•[3]	•[3]	•[3]	•[4]	•	•
	Rehabilitation Training	None	•	•	•	•[3]	•[3]	•[3]	•[4]	•	•
PUB	Military or Public Health Services[5]	3 Years	•	•		•					
	National Oceanic and Atmospheric Administration Corps[5]	3 Years		•							
	Peace Corps, Domestic, and Tax-Exempt Organization Volunteer	3 Years	•	•		•					
EDU	Teacher Shortage	3 Years		•							
	Internship/Residency Training	2 Years	•	•		•					
DIS	Temporary Total Disability[6]	3 Years	•	•		•	•	•		•	
UNEM	Unemployment	2 Years	•	•		•	•	•		•	
	Unemployment	3 Years			•				•		•
FAM	Parental Leave[7]	6 Months	•	•							
	Mother Entering/ Reentering Work Force	1 Year		•							
NEW HRD	Economic Hardship	3 Years			•				•		•

[1] New Borrower 7/1/87 to 6/30/93: A borrower who, on the date the borrower signed the promissory note, has no outstanding balance on (1) a Stafford, SLS, or PLUS loan first disbursed before July 1, 1987, for a period of enrollment beginning before July 1, 1987, or (2) a Federal Consolidation loan that repaid a loan first disbursed before July 1, 1987.

[2] New Borrower 7/1/93: A borrower who received a FFELP loan with a first disbursement on or after July 1, 1993. The borrower has no outstanding principal or interest balance on a FFELP loan as of July 1, 1993, or on the date the borrower obtains a loan on or after July 1, 1993. This includes a borrower who obtains a Federal Consolidation loan on or after July 1, 1993, if the borrower has no other outstanding FFELP loan when the Federal Consolidation loan was made.

[3] Periods during which the parent borrower meets the deferment eligibility requirements or a dependent student for whom the parent obtained a PLUS loan meets the deferment eligibility requirements.

[4] Periods during which the parent borrower meets the deferment eligibility requirements.

[5] Borrowers are eligible for a combined maximum of 3 years of deferment for service in NOAA, PHS, and Armed Forces.

[6] A deferment may be granted during periods when the borrower is temporarily totally disabled or during which the borrower is unable to secure employment because the borrower is caring for a dependent (including the borrower's spouse) who is temporarily totally disabled.

[7] A parental leave deferment may be granted to a borrower in periods of no more than 6 months each time the borrower qualifies.

7.10.A.
In-School or Student Deferment

An in-school deferment is intended to cover both full-time and half-time study at an eligible school. A lender must grant an in-school deferment if it receives information that supports the borrower's eligibility for the deferment. The guarantor forwards this information to the lender in the following cases:

- When the guarantor learns of circumstances that may entitle a borrower to an in-school deferment (which often occurs during default prevention activities).
- When the guarantor receives a request and documentation for the deferment from the borrower (either verbally or in writing, including a request on the common application and promissory note).
- When the guarantor receives verification of the borrower's eligibility for the deferment from the school.

If the lender receives information from the guarantor, the lender may rely on the information provided. The lender should require neither the borrower nor school to complete or submit any additional paperwork.

Eligibility Criteria

A student's in-school enrollment includes any combination of courses, special studies, research, or work experience that the school considers to constitute a course of study. Full-time or half-time enrollment is determined by the individual school and may vary according to whether the student is a graduate or undergraduate student; whether the enrollment is taking place during the summer or a regular session; and according to the nature of the program. Enrollment in a correspondence school program alone is considered half-time enrollment. The student's full-time or half-time enrollment also may be the result of adding together simultaneous enrollments at more than one school, provided that a single school certifies total enrollment for all of the schools.

Medical interns and residents (except dental interns) cannot be certified as enrolled students for the purposes of in-school deferment eligibility. These borrowers are prohibited from receiving or continuing an in-school deferment on the basis of at least half-time study at a participating school. However, a medical intern or resident who is also concurrently enrolled in a Ph.D. program may receive an in-school deferment based on his or her half-time or full-time enrollment in a Ph.D. program.

To obtain an in-school deferment, the student must be attending a school that either is eligible to participate in any Title IV Program or that is operated by an agency of the federal government (such as a service academy). An in-school deferment may be permissible for a student enrolled in a school that has lost eligibility due to its cohort default rate, or that has withdrawn from or never participated in the FFELP, if the school has received a determination from the Department that it qualifies as an eligible school.

▲ Schools may contact individual guarantors or reference Dear Colleague Letter 93-L-157 for more information on eligibility for in-school deferments. See section 1.5 for contact information.

A borrower who is not a national of the United States is not eligible for an in-school deferment based on attendance at a foreign school located outside the United States.

If a PLUS loan borrower or the dependent student for whom a PLUS loan was obtained meets the conditions required for an in-school, graduate fellowship, or rehabilitation training deferment, the parent borrower may defer all of his or her PLUS loans based on that condition—provided the parent was a "new" borrower before July 1, 1993 (see "Borrower Eligibility" in subsection 7.9.A.).

A PLUS loan borrower who is classified under the category *"new borrower, July 1, 1993"* defined in subsection 7.9.A. must be enrolled on at least a half-time basis to be eligible for in-school deferment. A deferment for such a new borrower who obtains a PLUS loan may no longer be granted on the basis of the dependent student's enrollment status.

Deferment Documentation

If a borrower who requests an in-school deferment form has any outstanding FFELP loans that were first disbursed before July 1, 1993, the lender should forward to the borrower the following common deferment form:

SCH
In-School Deferment Request

If a borrower who requests an in-school deferment form has had all of his or her outstanding FFELP loans first disbursed on or after July 1, 1993, the lender should forward to the borrower the following common deferment form:

NEW EDU
Education Related Deferment Request

The lender must determine the eligibility of a borrower—or, as applicable, the dependent student—for an in-school deferment based upon the receipt of any one of the following:

- A written or verbal request for deferment from the borrower and documentation of the borrower's eligibility for the deferment.
- A newly completed loan application that documents the borrower's eligibility for a deferment.
- Student status information received by the lender indicating that the borrower is enrolled at least half time.

The deferment should be granted through the eligible student's anticipated graduation date. If an in-school deferment is granted by the lender based upon a newly completed loan application or the receipt of student status information and, in either case, the borrower has not requested the deferment, the lender must notify the borrower of the in-school deferment and of the option to continue paying on the loan.
[HEA 428(b)(1)(Y)]

If a borrower verbally requests a deferment, the lender must retain a record of that request in the loan file or servicing history. The record should include the date of the request. Copies of written deferment requests, school certifications, and other documentation supporting the borrower's deferment eligibility should be retained in the borrower's file.
[§682.210(a)(6); §682.210(c)]

Length of Deferment

An in-school deferment should end no later than the anticipated graduation date. If the information used to certify the borrower's deferment eligibility does not include an anticipated graduation date (AGD), the lender may process the deferment through the academic period end date certified by the school or the AGD of record, whichever is later. The deferment will remain in effect until the student ceases to be enrolled at least half time or full time for pre 7/1/87 borrowers, as applicable. In the event that the lender receives new information that indicates the borrower has been or will be continuously enrolled, a new deferment is not required to extend the period of deferment. When new information is received, the lender may approve the deferment through the AGD most recently certified by the school or the new academic period end date, whichever is later.

In some cases, a student may temporarily cease attendance on at least a half-time basis due to a leave of absence without having the in-school deferment period interrupted. For a student to be considered "continuously enrolled," the school must include in the student's file *(a)* a request for a leave of absence and *(b)* information proving the student returned within 60 days of the last date of attendance.

A student enrolled in a program of correspondence study is eligible for an in-school deferment when the borrower is considered to be in the in-school period for half-time study (see section 7.1). Also, a borrower maintains continuous enrollment status if he or she temporarily ceases to be enrolled, but subsequently reenrolls, at least half time. The school must document that—allowing for any adjustment to the student's cost of attendance for the period of less than half-time enrollment—the student remains qualified for the entire amount of any loan received, including any disbursements made before the cessation of half-time enrollment. Otherwise, the school must have made appropriate refunds (see section 4.7).
[§668.22(j)(2)(iii); §682.210(c)]

7.10.B.
Summer Bridge Extension

In some cases, a lender may defer a loan only to the end of the school year or loan period. If a student attends school and is deferred through the end of the spring academic period and is planning to reenroll for the academic period in the fall, the deferment may be extended for the summer months. To qualify for this extension, the borrower must request the extension verbally or in writing, and the lender must document the student's intent to reenroll.

A Stafford loan borrower who is still considered enrolled, and who has not used the grace period, is not required to pursue a summer bridge extension. Instead, the lender should consider the borrower enrolled through the summer period, unless notified otherwise by the school, guarantor (through the student status confirmation process), or another acceptable source (see section 7.3).

When the lender receives notice of a student's intent to reenroll, it may maintain the in-school deferment on the loan for up to 30 days following the date the borrower has provided as the beginning of the fall academic period. If the lender does not receive verification of reenrollment by the end of the extension, the lender must convert the loan to repayment on the day following the last date of certified enrollment and capitalize interest accrued during the extension period. A payment due date must be established that is no more than 45 days—plus the 30-day extension in the case of a Stafford or SLS loan, *if applicable*, as outlined in subsection 7.4.B.—after the end of the summer bridge extension.

A lender may accept the borrower's verbal statement of his or her intent to reenroll if that request is documented or may use a guarantor's form or its own form to document a borrower's request for a summer bridge extension. Guarantors recommend that the lender send the borrower a form and a letter explaining the extension approximately 45 to 60 days before the expiration date of an in-school deferment that was granted for the spring academic period.

If the lender does not receive a notice from the borrower regarding his or her intent to reenroll for the fall academic period, but subsequently receives documentation of the borrower's deferment eligibility for the fall period, the lender may retroactively process the summer bridge extension.

▲ Lenders may contact individual guarantors for more information on obtaining summer bridge extension forms. See section 1.5 for contact information.

7.10.C.
Graduate Fellowship Deferment

A graduate fellowship deferment covers study under an eligible graduate fellowship program.

Eligibility Criteria

To qualify for this deferment, a borrower must request it and provide the lender with a written statement from an authorized official of the fellowship program. This statement must indicate the anticipated completion date of the program and must certify the following information with respect to the borrower—or dependent student in the case of a PLUS loan, where applicable:

- The individual holds at least a bachelor's degree conferred by an institution of higher education.

- The individual will be engaged in full-time study (which may be independent of an educational or cultural institution) in an academic or professional subject for which he or she has demonstrated an interest and ability and for which he or she has been recommended by an institution of higher education.

The fellowship program must:

- Provide sufficient financial support to the student to allow for full-time study for at least 6 months.

- Require a written statement from each applicant explaining the applicant's objectives before award of that financial support.

- Require the graduate fellow to submit periodic reports, projects, or other evidence of his or her progress.

- Accept any applicable course of study at a foreign school for completion of the fellowship program.

Deferment Documentation

If a borrower who requests a graduate fellowship deferment has any outstanding FFELP loans that were first disbursed before July 1, 1993, the lender should forward to the borrower the following common deferment form:

EDU
Education Related Deferment Request

If a borrower who requests a graduate fellowship deferment has had all of his or her outstanding FFELP loans first disbursed on or after July 1, 1993, the lender should forward to the borrower the following common deferment form:

NEW EDU
Education Related Deferment Request

Length of Deferment

The deferment may begin no more than 6 months before the date on which the lender receives the deferment request and all deferment documentation or the first date on which the borrower was eligible for the deferment, whichever is later. The deferment ends on the date the borrower withdraws or completes the fellowship program, whichever is earlier. [§682.210(d)]

7.10.D. Rehabilitation Training Program Deferment

A rehabilitation training program deferment covers a qualified individual's participation in a rehabilitation training program.

Eligibility Criteria

To qualify for this deferment, a borrower must request it and provide the lender with written certification from the rehabilitation agency that:

- The borrower—or the dependent student in the case of a PLUS loan, where applicable—is either receiving or scheduled to receive rehabilitation training services from the agency.

- The rehabilitation training program is licensed, approved, certified, or otherwise recognized as providing rehabilitation training to qualified individuals by a state agency responsible for vocational rehabilitation, drug abuse treatment, mental health services, or alcohol abuse treatment programs, or by the Department of Veterans Affairs.

- The rehabilitation training program will provide the borrower or dependent student with rehabilitation services under a written plan that:

  - Is individualized to meet the borrower's or dependent student's needs.

  - Specifies the date on which the services to the borrower or dependent student are expected to end.

  - Is structured in a way that requires a substantial commitment by the borrower or dependent student to his or her rehabilitation. A substantial commitment is defined as a commitment demanding time and effort that would normally prevent an individual from engaging in full-time employment, either because of the number of hours that must be devoted to rehabilitation or because of the nature of the rehabilitation. For these purposes, full-time employment is defined as at least 30 hours of work per week that is expected to last at least 3 months.

Deferment Documentation

If a borrower who requests a rehabilitation training program deferment has any outstanding FFELP loans that were first disbursed before July 1, 1993, the lender should forward to the borrower the following common deferment form:

EDU
Education Related Deferment Request

If a borrower who requests a rehabilitation training deferment has had all of his or her outstanding FFELP loans first disbursed on or after July 1, 1993, the lender should forward to the borrower the following common deferment form:

NEW EDU
Education Related Deferment Request

Length of Deferment

The deferment begins on the date the borrower first fulfills the criteria for deferment or up to 6 months before the date the lender receives the borrower's request and deferment documentation, whichever is later. The deferment ends when the borrower completes the program or withdraws, whichever is earlier.
[§682.210(e)]

7.10.E. Unemployment Deferment

The unemployment deferment is available to individuals who are conscientiously seeking, but unable to find, full-time employment in the United States. For purposes of this deferment, the United States includes borrowers residing in and seeking employment in any state of the Union, the Commonwealth of Puerto Rico, the District of Columbia, American Samoa, Guam, the Trust Territory of the Pacific Islands, the Virgin Islands, and the Northern Mariana Islands. Also, a U.S. military base or U.S. embassy compound in a foreign country is considered to be part of the United States for purposes of this deferment.

Eligibility Criteria

For these purposes, full-time employment is defined as at least 30 hours of work per week that is expected to last at least 3 months. A borrower who is in school or working less than 30 hours per week may be looking for full-time employment and, therefore, may be eligible for an unemployment deferment. A borrower is eligible for an unemployment deferment regardless of whether he or she has been previously employed and regardless of the circumstances under which any prior employment ended. However, a borrower is not eligible for an unemployment deferment if he or she refuses to consider positions, salaries, or responsibility levels for which he or she feels overly qualified due to education or experience.

To obtain an unemployment deferment or an extension of an unemployment deferment, a borrower must request the deferment or extension. Each deferment request must contain self-certifying statements from the borrower that:

- Describe the borrower's conscientious search for full-time employment during the preceding 6 months. If requesting an extension, this description must document at least six attempts to secure employment during the period to be covered by the deferment, including *(a)* the names of the firms contacted, *(b)* the names or titles of the persons contacted, and *(c)* the addresses and telephone numbers of the firms. An Internet address for the firm or place of employment (e.g., Website or electronic mail) is an acceptable address if the borrower applied electronically for employment. As an alternative to certifying employer contacts, a lender may accept comparable documentation that the borrower has used to meet the requirements of the Unemployment Insurance Service, provided the documentation shows the same number of contacts and contains the same information required from the borrower.

- Provide the borrower's latest permanent home address and, if applicable, latest temporary address.

- Demonstrate that the borrower has registered with a public or private employment agency, if one is accessible. The name and address of the agency and the date of registration with the agency must be provided if such an agency is accessible. An agency is considered accessible if it is located within a 50-mile radius of the borrower's residence. An Internet address for the agency (e.g., Website or electronic mail) is an acceptable address if the borrower registered electronically with the agency. It may not be presumed that a borrower has access to an employment agency based on the borrower's providing a firm's Internet address as part of the documentation that the borrower attempted to secure full-time employment. School placement and temporary help agencies are not considered employment agencies for the purposes of establishing unemployment deferment eligibility.

- Indicate the borrower's agreement to promptly notify the lender when full-time employment is obtained.

Note: A borrower who resides on a U.S. military base in a foreign country or on a U.S. embassy compound in a foreign country because his or her spouse is stationed there must provide documentation equivalent to that required of other borrowers describing the borrower's conscientious search for full-time employment. However, when identifying employment contacts, the "name of the firm" may be, for example, the U.S. military base employment office or the U.S. embassy personnel office. These borrowers are not required to comply with the requirement that they document further attempts to secure employment during the period of certification, if the borrower has sought employment with the U.S. military base employment office, the U.S. embassy personnel office, or their equivalent.

Deferment Documentation

If a borrower requests an unemployment deferment, the lender should forward to the borrower the following common deferment form:

UNEM
Unemployment Deferment Request

Length of Deferment

Each unemployment deferment may be backdated up to 6 months from the date the lender receives the request and all documentation or the date the borrower's eligibility for deferment began, whichever is later. An unemployment deferment may not be granted for more than 6 months following the date the form is certified.

If the borrower is eligible to receive a 6-month post-deferment grace period on his or her loan (see subsection 7.9.F.), only one such grace period may be received following one unemployment deferment period—regardless of how many unemployment deferments the borrower is granted. This grace period should be provided only on the initial unemployment deferment period.

An unemployment deferment period ends as soon as one of the following events occurs:

- The borrower becomes gainfully employed on a full-time basis.
- The unemployment deferment period reaches the 2-year or 3-year maximum, as applicable.
- The 6-month period of deferment expires before the borrower submits an extension request. [§682.210(h); Appendix A of DCL 96-L-186/96-G-287]

7.10.F.
Temporary Total Disability Deferment

A temporary total disability deferment covers a period during which a borrower is temporarily totally disabled or unable to secure or continue employment because the borrower is caring for a dependent or spouse who is temporarily totally disabled.

Eligibility Criteria

This deferment is available to a borrower only if he or she has an outstanding FFELP loan that was first disbursed before July 1, 1993.

A borrower is considered temporarily totally disabled if he or she has been unable to work and earn money or attend school for at least 60 days because of time needed to recover from an injury or illness. A borrower's dependent or spouse is considered temporarily totally disabled if, by reason of injury or illness, the dependent or spouse requires continuous nursing or similar services during a period of at least 90 days.

A borrower does not qualify for a disability deferment due to pregnancy unless, as a result of complications that accompany the pregnancy, the borrower, dependent, or spouse is considered temporarily totally disabled by a physician.

To obtain this deferment, a borrower must request it and provide the lender with a statement from a physician—who must be a doctor of medicine or osteopathy and legally authorized to practice—certifying that the borrower, dependent, or spouse is temporarily totally disabled.

For a borrower to be eligible for the deferment based on a dependent's or spouse's disability, the physician also must certify that the borrower's spouse or dependent requires continuous nursing or similar services for a period of at least 90 days. The borrower also must provide a statement certifying that he or she is unable to secure full-time employment (at least 30 hours of work per week that is expected to last at least 3 months) because the borrower is providing continuous nursing or similar services to the dependent or spouse.

If a borrower applies for a disability deferment based on a condition that existed before applying for the loan, the borrower is not eligible for the deferment unless the borrower obtains documentation from a physician certifying that the borrower's condition has substantially deteriorated since the borrower applied for the loan, so as to render the borrower temporarily totally disabled after applying for the loan. This requirement is applicable to a Consolidation loan if the condition existed before the disbursement of any of the original loans that were consolidated or before the date the borrower applied for the Consolidation loan.

Deferment Documentation

If a borrower requests a temporary total disability deferment, the lender should forward to the borrower the following common deferment form:

DIS
Temporary or Permanent Total Disability Certification

Length of Deferment

This deferment may begin no earlier than 6 months before the date the lender receives the deferment request and all documentation, or the date the doctor certified that the condition exists, whichever is later. The deferment must end no later than 6 months after the date on which the doctor certified the form, or the date on which the doctor has certified that the condition will end, whichever is earlier. If the doctor does not specify an anticipated recovery date, or indicates *unknown* or *indefinite*, the deferment may be processed for 6 months from the date on which the doctor certified the form.

A borrower may receive a combined total of 3 years of disability deferment for both the borrower's own condition and the conditions of the borrower's dependents or spouse. [§682.210(f) and (g)]

7.10.G. Military Deferment

A military deferment is intended to cover active duty status in the U.S. Armed Forces (Army, Navy, Air Force, Marine Corps, and the Coast Guard).

Eligibility Criteria

This deferment generally applies only to an active duty member of the U.S. Armed Forces who has an outstanding FFELP loan that was first disbursed before July 1, 1993, or has a PLUS loan that was first disbursed before August 15, 1983. Members of the National Guard or the Reserves who are serving in a full-time active duty status for a minimum of one year or in cases of a national emergency (not a 2-week active duty assignment for training status) may qualify for the military deferment. Such borrowers are considered to be actively serving in the military. For a Stafford borrower who is called or ordered to active duty and who has a loan in a grace period or has a loan in an in-school status that would subsequently enter a grace period, see section 7.2 for information on military extension of the grace period.

In addition to requesting the deferment, a borrower must provide the lender with documentation establishing that he or she is serving a period of full-time active duty status in the Armed Forces of the United States. Documentation may include:

- A written statement from the borrower's commanding officer or personnel officer certifying the date on which the borrower's service began and the date on which it is expected to end.
- A copy of the borrower's official military orders and a copy of the borrower's active duty military identification card.

Several statutory and regulatory provisions were introduced in 1991 to provide additional benefits to borrowers who served on active duty in connection with Operations Desert Shield/Desert Storm. For additional information on these provisions, refer to Dear Colleague Letters GEN-91-11 and GEN-91-19 and the *Federal Register* dated September 16, 1991.

Deferment Documentation

If a borrower requests a military deferment, the lender should forward to the borrower the following common deferment form:

PUB
Public Service Deferment Request

Length of Deferment

The deferment may begin no earlier than 6 months before the date on which the lender receives the deferment request and all documentation, or the date on which the borrower's qualifying status is certified to begin, whichever is later. The deferment ends no later than 3 years after the date on which it began, or the date on which the borrower's qualifying service is certified to end or actually ends, whichever is earlier. Borrowers may be granted a maximum of 3 years of deferment for any combination of service in the U.S. Armed Forces, U.S. Commissioned Corps of Public Health, and National Oceanic and Atmospheric Administration Corps (NOAA).
[§682.210(i)]

For active duty status in connection with military mobilizations, the lender will be permitted to accept, during specific emergency periods, the borrower's request for the deferment and the supporting documentation from a close family member or an individual in a position to know the borrower's military status (such as the borrower's commanding officer). In the case of a deferment on behalf of a borrower serving in Operations Desert Shield/Desert Storm, the lender was permitted to grant the deferment retroactive to the date the borrower was mobilized—even if that resulted in backdating the deferment more than 6 months. Furthermore, if a borrower had used the entire 36-month military deferment eligibility before being mobilized, the borrower or a close family member had the option of requesting an emergency administrative forbearance.

7.10.H.
Peace Corps Deferment

A Peace Corps deferment is intended to cover volunteer service under the Peace Corps Act.

Eligibility Criteria

This deferment is available to a borrower only if he or she has an outstanding FFELP loan that was first disbursed before July 1, 1993, or a PLUS loan first disbursed before August 15, 1983.

To qualify for this deferment, a borrower must request it and provide the lender with a statement from an official of the Peace Corps program certifying:

- That the borrower has agreed to serve as a volunteer on a full-time basis for at least one year.
- The date on which the borrower's service began.
- The date on which the borrower's service is expected to end.

Deferment Documentation

If a borrower requests a Peace Corps deferment, the lender should forward to the borrower the following common deferment form:

> **PUB**
> Public Service Deferment Request

Length of Deferment

The deferment may begin no earlier than 6 months before the date on which the lender receives the deferment request and all documentation, or the date on which the borrower's qualifying status is certified to begin, whichever is later. The deferment ends no later than 3 years after the date on which it began, or the date on which the borrower's commitment is certified to end or actually ends, whichever is earlier. [§682.210(k)]

7.10.I.
ACTION Program Deferment

An ACTION Program deferment is intended to cover full-time paid volunteer service with an organization participating in a program authorized under Title I of the Domestic Volunteer Act of 1973 (ACTION programs).

Eligibility Criteria

This deferment is available to a borrower only if he or she has an outstanding FFELP loan that was first disbursed before July 1, 1993, or a PLUS loan first disbursed before August 15, 1983.

To qualify for this deferment, a borrower must request it and provide the lender with a statement from an official of the volunteer program certifying:

- That the borrower has agreed to serve as a volunteer on a full-time basis for at least one year.
- The date on which the borrower's service began.
- The date on which the borrower's service is expected to end.

Deferment Documentation

If a borrower requests an ACTION Program deferment, the lender should forward to the borrower the following common deferment form:

> **PUB**
> Public Service Deferment Request

Length of Deferment

The deferment may begin no earlier than 6 months before the date on which the lender receives the deferment request and all documentation, or the date on which the borrower's qualifying status is certified to begin, whichever is later. The deferment ends no later than 3 years after the date on which it began, or the date on which the borrower's commitment is certified to end or actually ends, whichever is earlier. [§682.210(l)]

7.10.J.
Tax-Exempt Organization Volunteer Deferment

A tax-exempt organization volunteer deferment is intended to cover full-time paid volunteer service with a tax-exempt organization that the U.S. Department of Education has determined to be comparable to service as a Peace Corps or ACTION volunteer.

Eligibility Criteria

This deferment is available to a borrower only if he or she has an outstanding FFELP loan that was first disbursed before July 1, 1993, or a PLUS loan first disbursed before August 15, 1983.

To qualify for this deferment, a borrower must request it and provide the lender with a statement from an official of the volunteer program certifying:

- That the borrower has agreed to serve on a full-time basis for at least one year.
- That the borrower serves as a volunteer in an organization that is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code of 1986.
- That the borrower provides service to low-income persons and their communities to assist them in eliminating poverty and poverty-related human, social, and environmental conditions.
- That the borrower's compensation—including a subsistence allowance, necessary travel expenses, and stipends—does not exceed the federal minimum wage, except that the tax-exempt organization may provide health, retirement, and other fringe benefits to the volunteer that are substantially equivalent to the benefits offered to other employees of the organization.
- That the borrower, as part of his or her duties, does not give religious instruction, conduct worship services, engage in religious proselytizing, or engage in fund-raising to support religious activities.
- The date on which the borrower's service began.
- The date on which the borrower's service is expected to end.

Deferment Documentation

If a borrower requests a tax-exempt organization volunteer deferment, the lender should forward to the borrower the following common deferment form:

> **PUB**
> Public Service Deferment Request

Length of Deferment

The deferment may begin no earlier than 6 months before the date on which the lender receives the deferment request and all documentation, or the date on which the borrower's qualifying status is certified to begin, whichever is later. The deferment ends no later than 3 years after the date on which it began, or the date on which the borrower's commitment is certified to end or actually ends, whichever is earlier. [§682.210(m)]

7.10.K.
Internship/Residency Deferment

An internship/residency deferment is intended to cover:

- Service in an internship program that is required of the borrower to receive professional recognition in order to begin professional practice or service
- Service in a medical internship or residency training program that leads to a degree or certificate awarded by an institution of higher education, hospital, or a health care facility that offers postgraduate training.

Eligibility Criteria

This deferment is available to a borrower only if he or she has an outstanding FFELP loan that was first disbursed before July 1, 1993, or a PLUS loan first disbursed before August 15, 1983.

To qualify for this deferment, a borrower must request it and provide the lender with a statement from an authorized official of the organization with which the borrower is undertaking the internship or residency program certifying the following:

- That the internship or residency program is a supervised training program that requires the completion of at least a bachelor's degree before acceptance into the program.
- That the borrower has been accepted into the program.

- The anticipated dates on which the borrower will begin and complete the program, or begin and complete the minimum period of participation in the program that the state requires before an individual may be certified for professional practice or service, whichever is less.

For a medical internship or residency training program performed at a hospital, health care facility, or institution of higher education, the borrower must provide certification from an authorized official of the internship/residency program. The certification must include a statement that completion of the program leads to a degree or certificate awarded by an institution of higher education, a hospital, or health care facility that offers postgraduate training.

For a nonmedical internship program that is required of a borrower to begin professional practice of service, the borrower must provide certification from both the authorized program official and the appropriate state licensing agency. The certification must include a statement that completion of the program is required before the borrower can begin professional practice or service.

Deferment Documentation

If a borrower requests an internship/residency training deferment, the lender should forward to the borrower the following common deferment form:

> **EDU**
> Education Related Deferment Request

Length of Deferment

The deferment may begin no earlier than 6 months before the date on which the lender receives the deferment request and all documentation, or the date on which the borrower's qualifying status is certified to begin, whichever is later. The deferment ends no later than 2 years after the date on which it began, or the date on which the borrower's internship or residency is certified to end or actually ends, whichever is earlier.
[§682.210(n)]

A lender is required to grant forbearance to a borrower who has already received the maximum 2-year deferment but who has not yet completed his or her internship or residency program (see subsection 7.11.C.). The 2-year deferment limit does not include periods of in-school deferment that were previously granted (before enactment of the Omnibus Budget Reconciliation Act of 1989).

7.10.L.
Parental Leave Deferment

A parental leave deferment is intended to cover a borrower who is pregnant or caring for his or her newborn or newly adopted child.

Eligibility Criteria

This deferment is available to a borrower only if he or she has an outstanding FFELP loan that was first disbursed before July 1, 1993.

To qualify for this deferment, a borrower must request it and provide to the lender a statement certifying that:

- The borrower is pregnant or caring for his or her newborn child, or caring for a child immediately following his or her adoption of that child.

- The borrower will not be attending school during this period.

- The borrower will not be working full time (at least 30 hours of work per week that is expected to last at least 3 months) during this period.

- The borrower has been enrolled at least half time during the 6 months before the date on which the deferment should begin.

In addition to his or her own statements, the borrower must provide to the lender a statement from the doctor verifying the pregnancy, or a birth certificate or a statement from an adoption agency indicating the recent placement of a child in the borrower's care. In addition, the statement of the borrower's in-school enrollment status must be certified by an authorized official of a participating school.

Deferment eligibility is limited to the period during which the borrower is pregnant or the period immediately following the birth or adoption of a child.

Because the borrower must be enrolled at least half time at an eligible school at some time during the 6 months immediately preceding the period of the parental leave deferment, the lender, in granting the deferment, may waive all or a portion of the borrower's grace period if the waiver is authorized by the borrower in writing.

The common deferment form for this deferment provides up to a one-month grace period waiver.

Deferment Documentation

If a borrower requests a parental leave deferment, the lender should forward to the borrower the following common deferment form:

> **FAM**
> Family Deferment Request

Length of Deferment

The deferment may begin no earlier than 6 months before the date on which the lender receives the deferment request and all documentation, or the date on which the borrower's qualifying status is certified to begin, whichever is later. The deferment ends no later than 6 months after the date on which it began. This deferment may be granted to the same borrower in periods of no more than 6 months each time the borrower qualifies. This means that the borrower may receive the deferment for the birth or care of more than one child, in increments not to exceed the 6-month maximum per occurrence.
[§682.210(o)]

7.10.M.
National Oceanic and Atmospheric Administration Corps Deferment

This deferment is intended to cover active duty service in the National Oceanic and Atmospheric Administration Corps (NOAA).

Eligibility Criteria

This deferment is available to a borrower only if he or she has an outstanding FFELP loan that was first disbursed before July 1, 1993.

To qualify for this deferment, a borrower must request it and provide the lender with a statement from an authorized official of the NOAA Corps certifying:

- That the borrower is on active duty status in the NOAA Corps.
- The date on which the borrower's service began.
- The date on which the borrower's service is expected to end.

Deferment Documentation

If a borrower requests a NOAA deferment, the lender should forward to the borrower the following common deferment form:

> **PUB**
> Public Service Deferment Request

Length of Deferment

The deferment may begin no earlier than 6 months before the date on which the lender receives the deferment request and all documentation, or the date on which the borrower's qualifying status is certified to begin, whichever is later. The deferment ends no later than 3 years after the date on which it began, or the date on which the borrower's qualifying service is certified to end or actually ends, whichever is earlier. A borrower may be granted a maximum of 3 years of deferment for any combination of service in the U.S. Armed Forces, U.S. Commissioned Corps of Public Health, and NOAA.
[§682.210(p)]

7.10.N.
Teacher Shortage Area or Targeted Teacher Deferment

A teacher shortage area deferment (also called a targeted teacher deferment) is intended to cover full-time teaching in a public or nonprofit private elementary or secondary school in a teacher shortage area defined by the Department, as recommended by the chief state school officer of the state.

Eligibility Criteria

This deferment is available to a borrower only if he or she has an outstanding FFELP loan that was first disbursed on or after July 1, 1987, but before July 1, 1993.

A teacher shortage area is defined as one of the following:

- A geographic region of the state in which there is a shortage of elementary or secondary school teachers.
- A specific grade level—or an academic, instructional, subject matter, or discipline classification—in which there is a statewide shortage of elementary or secondary school teachers.

If the borrower continues to teach in the same area as that in which the borrower was teaching when the deferment was originally granted, the borrower may request and receive subsequent deferment extensions—even if the area does not continue to be designated a teacher shortage area.

To qualify for this deferment, a borrower must request it and provide a separate statement for each school year of service that includes:

- A statement from the chief administrative officer of the school at which the borrower is teaching, certifying that the borrower is employed as a full-time teacher.

- A statement certifying that the borrower is teaching in a designated teacher shortage area. This statement must be obtained from either the school's chief administrative officer or the chief state school officer of the state in which the borrower is teaching. If the chief state school officer provides (and has notified the Department by way of a one-time written assurance that he or she provides) an annual listing of the state's designated teacher shortage areas to the chief administrative officers of all the schools affected and the guarantor for that state, the borrower may obtain the certification from the school's chief administrative officer.

To receive a subsequent deferment, a borrower must provide a statement from the chief administrative officer of the school at which the borrower is teaching, certifying that the borrower continues to be employed as a full-time teacher in the same area for which the teacher shortage deferment was obtained for the previous year(s).

Deferment Documentation

If a borrower requests a teacher shortage area deferment, the lender should forward to the borrower the following common deferment form:

EDU
Education Related Deferment Request

Length of Deferment

The deferment begins no earlier than 6 months before the date on which the lender receives the deferment request and all documentation, or the date on which the borrower's qualifying status is certified to begin, whichever is later. The deferment ends no later than one year after the date on which it began, or the date on which the borrower's qualifying service is certified to end, whichever is earlier. Each deferment may be granted only in 12-month increments, extending from July 1 of a calendar year through June 30 of the following year. The deferment ends on the earlier of the June 30 close of a school year or the date the borrower terminates full-time teaching status in the targeted area. The borrower is permitted up to 3 years of deferment while serving in a teacher shortage area. [§682.210(q)]

7.10.0. Working Mother Deferment

This deferment is intended to cover mothers of preschool-age children when the mothers are entering or reentering the work force.

Eligibility Criteria

This deferment is available to a borrower only if she has an outstanding FFELP loan that was first disbursed before July 1, 1993.

To qualify for this deferment, a borrower must request it and provide the lender with:

- A statement that she is the mother of a preschool-age child; that she entered or is reentering the work force no more than one year before the beginning date of the period for which the deferment is being sought; and that she is currently employed full time (at least 30 hours of work per week that is expected to last at least 3 months) in a position for which she receives wages of no more than $1.00 per hour more than the minimum wage.

- Documentation of the child's age (such as a birth or baptismal certificate).

- Documentation of wages (such as a pay stub).

A preschool-age child is defined as one who is not yet enrolled in first grade or a higher grade in elementary school.

Deferment Documentation

If a borrower requests a working mother deferment, the lender should forward to the borrower the following common deferment form:

FAM
Family Deferment Request

Length of Deferment

The deferment may begin no earlier than 6 months before the date on which the lender receives the deferment request and all documentation, or the date on which the borrower's qualifying status is certified to begin, whichever is later. The deferment ends no later than 12 months after the date on which it began, or the date on which the borrower no longer qualifies for the deferment (for example, when a borrower achieves a salary that would exceed the hourly minimum wage plus $1.00), whichever is earlier.
[§682.210(r)]

7.10.P.
Economic Hardship Deferment

An economic hardship deferment is intended to cover a borrower who earns less than minimum wage or exceeds a federally defined debt-to-income ratio.

Eligibility Criteria

This deferment is available to a borrower only if all of his or her outstanding FFELP loans are first disbursed on or after July 1, 1993.

To qualify for this deferment, a borrower must request it and provide the lender with documentation that he or she meets at least one of the following eligibility criteria:

1. The borrower has been granted an economic hardship deferment under either the FDLP or Federal Perkins Loan Program for the period of time for which the borrower has requested an economic hardship deferment for his or her FFELP loan.

2. The borrower is receiving payment under a federal or state public assistance program, such as Aid to Families with Dependent Children, Supplemental Security Income, Food Stamps, or state general public assistance.

3. The borrower is working full time and earning a total monthly gross income that does not exceed the greater of *(a)* the minimum wage rate described in section 6 of the Fair Labor Standards Act of 1938 or *(b)* an amount equal to 100% of the poverty level for a family of two, as determined in accordance with section 673(2) of the Community Service Block Grant Act *(see Note 1 below)*.

4. The borrower is working full time and has a federal education debt burden that equals or exceeds 20% of the borrower's total monthly gross income. The borrower's income minus such burden must be less than 220% of the amount calculated under item 3 above *(see Notes 1 and 2 below)*.

5. The borrower is not working full time and has a total monthly gross income that does not exceed twice the amount calculated under item 3 above and, after deducting an amount equal to the borrower's federal education debt burden, the remaining amount of that income does not exceed the amount specified in item 3 above *(see Notes 1 and 2 below)*.

6. The borrower is or will be serving as a Peace Corps volunteer.

A borrower who is or will be serving as a Peace Corps volunteer may be eligible for either a Peace Corps deferment or an economic hardship deferment. A Peace Corps deferment is available to a borrower whose first disbursement on his or her oldest outstanding loan is prior to July 1, 1993. An economic hardship deferment is available to a new borrower whose first disbursement on his or her oldest outstanding loan is on or after July 1, 1993. Lenders are encouraged to offer forbearance to any borrower who has exceeded the deferment limit in completing his or her Peace Corps service.
[DCL GEN-98-16]

Note 1:
A borrower is considered to be working full time if he or she is expected to be employed for at least three consecutive months at 30 hours per week. For an initial period of deferment granted under items 3 through 5 above, the lender must require the borrower to submit evidence showing the amount of the borrower's most recent total monthly gross income. A borrower's total monthly gross income is the gross amount of income received by the borrower from employment (either full-time or part-time) and from other sources. To qualify for a subsequent period

of deferment that begins less than one year after the end of a period of deferment under items 3 through 5, the lender must require the borrower to submit evidence showing the amount of the borrower's most recent total monthly gross income, and a copy of the borrower's federal income tax return if the borrower filed a tax return within 8 months before the date the deferment is requested.

Note 2:
To determine a borrower's federal education debt burden for purposes of an economic hardship deferment under items 4 and 5 above, the lender must count only the monthly payment amount (or a proportional share if the payments are due less frequently than monthly) that would have been owed on a federal postsecondary education loan if the loan had been scheduled to be repaid in 10 years from the date the borrower entered repayment—regardless of the length of the borrower's actual repayment schedule or the actual monthly payment amount (if any) that would be owed during the period that the borrower requested an economic hardship deferment. The lender must require the borrower to provide evidence that would enable the lender to determine the amount of the monthly payments that would have been owed by the borrower during the deferment period to other entities for federal postsecondary education loans.

Deferment Documentation

If a borrower requests an economic hardship deferment, the lender should forward to the borrower the following common deferment form:

> **NEW HRD**
> Economic Hardship Deferment Request

Documentation should include pay stubs or official documents noting the borrower's income, copies of repayment schedules or notices on educational loans, and, in limited cases, a copy of the most recent federal tax return if one was filed within 8 months before the date the deferment was requested. A borrower who qualifies for deferment based on his or her Peace Corps service is not required to submit income documentation, but must submit documentation from the Peace Corps showing that he or she is or will be serving as a volunteer.

A borrower who is newly self employed may not be able to provide traditional documentation of income. In order for a newly self-employed borrower to qualify for an economic hardship deferment, the borrower must provide the lender with a self-certifying statement of projected monthly income from all sources. In addition, the borrower must provide documentation of the newly formed business and documentation of the borrower's involvement in that business. Documentation that may be used for newly self-employed borrowers includes, but is not limited to:

- A statement from the borrower's accountant.
- A copy of the Articles of Incorporation for the business venture.
- A copy of the Business Charter showing the borrower's involvement.
- An application for a tax identification number.

Length of Deferment

The deferment may begin no earlier than 6 months before the date on which the lender received the deferment request and all documentation, or the date on which the borrower first became eligible for the deferment, whichever is later. The deferment ends no later than one year following the date on which it began, or through the last date of the borrower's documented eligibility, whichever is earlier. This deferment may be granted for periods of up to 12 consecutive months at a time and may be renewed for a total of 3 years of economic hardship deferment. However, economic hardship deferments for Peace Corps service may be granted for periods of up to 36 consecutive months. [§682.210(s)(6)]

Two sample worksheets for determining a working borrower's eligibility for an economic hardship deferment are included on the following pages. The first worksheet is for borrowers working full time; the second is for borrowers working part time.

1999 ECONOMIC HARDSHIP DEFERMENT WORKSHEET FOR BORROWER WORKING FULL TIME

Request Based on Monthly Gross Income:

1.	a.	Annual Federal Minimum Wage: (40 hours x $5.15 x 52 weeks)	$ 10,712.00
	b.	Monthly Federal Minimum Wage: (1.a. ÷ 12)	$ 892.66
2.	a.	Annual Poverty Level for a Family of Two: (for 1999, as per Community Service Block Grant Act)	$ 11,060.00*
	b.	Monthly Poverty Level: (2.a. ÷ 12)	$ 921.67
3.	a.	Borrower's Annual Gross Income: (borrower supplies documentation)	$_________
	b.	Borrower's Monthly Adjusted Gross Income: (3.a. ÷ 12)	$_________
4.	a.	Does 3.b. exceed the greater of 1.b. and 2.b.?	YES/NO

If the answer to #4 is no, grant the deferment.
If the answer to #4 is yes, calculate the percentage of federal education loan debt to income below.

Request Based on Federal Education Loan Debt-to-Income Ratio:

5.	a.	Borrower's Total Monthly Payments on Federal Educational Loan Debt: (borrower supplies documentation)	$_________
6.	a.	20% of Borrower's Monthly Gross Income: (3.b. x .20)	$_________
7.		Does 5.a. equal or exceed 6.a.?	YES/NO

If the answer to #7 is no, the borrower is not eligible for deferment.
If the answer to #7 is yes, continue:

8.	a.	Monthly Income minus Monthly Federal Education Debt: (3.b. - 5.a.)	$_________
9.	a.	220% of Monthly Federal Minimum Wage: (1.b. x 2.20)	$ 1,963.87
	b.	220% of the Poverty Level: (2.b. x 2.20)	$ 2027.67
10.		Does 8.a. exceed the greater of 9.a. and 9.b.?	YES/NO

If the answer to #10 is no, grant the deferment.
If the answer to #10 is yes, the borrower is not eligible for deferment.

*The 1999 poverty level for a family of two, per the Community Service Block Grant Act, is as follows:

Continental United States and District of Columbia	$11,060
Alaska	$13,840
Hawaii	$12,730

1999 ECONOMIC HARDSHIP DEFERMENT WORKSHEET FOR BORROWER WORKING PART TIME

Request Based on Monthly Gross Income:

1.	a.	Annual Federal Minimum Wage: (40 hours x $5.15 x 52 weeks)	$ 10,712.00
	b.	Monthly Federal Minimum Wage: (1.a. ÷ 12 x 2)	$ 1,785.33
2.	a.	Annual Poverty Level for a Family of Two: (for 1999, as per Community Service Block Grant Act)	$ 11,060.00*
	b.	Monthly Poverty Level: (2.a. ÷ 12 x 2)	$ 1,843.33
3.	a.	Borrower's Annual Gross Income: (borrower supplies documentation)	$_________
	b.	Borrower's Monthly Adjusted Gross Income: (3.a. ÷ 12)	$_________
4.	a.	Does 3.b. exceed the greater of 1.b. and 2.b.?	YES/NO

If the answer to #4 is no, calculate the percent of federal education loan debt to income below.
If the answer to #4 is yes, the borrower is not eligible for the deferment.

Request Based on Federal Education Loan Debt-to-Income Ratio:

5.	a.	Borrower's Total Monthly Payments on Federal Educational Loan Debt: (borrower supplies documentation)	$_________
6.	a.	Monthly Income minus Federal Education Debt: (3.b. - 5.a.)	$_________
7.	a.	Monthly Federal Minimum Wage: (1.a. ÷ 12)	$ 892.66
	b.	Monthly Poverty Level: (2.a. ÷ 12)	$ 921.67
8.		Does 6.a. exceed the greater of 7.a. and 7.b.?	YES/NO

If the answer to #8 is no, grant the deferment.
If the answer to #8 is yes, the borrower is not eligible for the deferment.

*The 1999 poverty level for a family of two, per the Community Service Block Grant Act, is as follows:

Continental United States and District of Columbia	$11,060
Alaska	$13,840
Hawaii	$12,730

7.10.Q.
Public Health Service Deferment

A public health service deferment is intended to cover service as a full-time officer in the Commissioned Corps of Public Health of the United States Public Health Service (USPHS).

Eligibility Criteria

This deferment is available to a borrower only if he or she has an outstanding FFELP loan that was first disbursed before July 1, 1993, or a PLUS loan first disbursed before August 15, 1983.

To qualify for this deferment, the borrower must request it and provide the lender with a statement from an authorized official of the USPHS certifying:

- That the borrower is serving as a full-time officer in the Commissioned Corps of Public Health.
- The date on which the borrower's service began.
- The date on which the borrower's service is expected to end.

Deferment Documentation

If a borrower requests a public health service deferment, the lender should forward to the borrower the following common deferment form:

PUB
Public Service Deferment Request

Length of Deferment

The deferment may begin no earlier than 6 months before the date on which the lender receives the deferment request and all documentation, or the date on which the borrower's qualifying status is certified to begin, whichever is later. The deferment ends no later than 3 years after the date on which it began, or the date on which the borrower's qualifying service is certified to end or actually ends, whichever is earlier. Borrowers may be granted a maximum 3 years of deferment for any combination of service in the U.S. Armed Forces, U.S. Commissioned Corps of Public Health, and National Oceanic and Atmospheric Administration Corps (NOAA).
[§682.210(j)]

7.11
Forbearance

By granting forbearance, a lender either permits a temporary cessation of payments, allows an extension of time for making payments, or temporarily accepts smaller payments than were previously scheduled. A lender is encouraged to grant a forbearance to prevent the borrower or endorser from defaulting on the repayment obligation or to permit the borrower or endorser to resume honoring the loan obligation after default. The lender may grant forbearance to borrowers or endorsers only if the lender reasonably believes, and documents in the borrower's file, that the borrower or endorser intends to repay the loans, but due to poor health or other acceptable reasons, is currently unable to make payments. The lender also may grant forbearance if the principal payments have been deferred, but the Department does not pay interest benefits on the borrower's behalf.

There are four types of forbearance:

- Discretionary forbearance (see subsection 7.11.A.).
- Administrative forbearance (see subsection 7.11.B.).
- Mandatory forbearance (see subsection 7.11.C.).
- Mandatory administrative forbearance (see subsection 7.11.D.).

If two individuals are jointly liable for repayment of a PLUS loan or Consolidation loan, a lender may grant forbearance on repayment of the loan only if the ability of each individual to make scheduled payments has been impaired.

If a lender denies a borrower's request for forbearance, the lender must document the reason for denial in the borrower's file or the servicing history of the loan (see subsection 3.4.A.).

A lender may not charge an administrative or other fee in connection with granting forbearance on a loan. A lender also is prohibited from reporting to credit bureaus any adverse information regarding the repayment status of a loan solely as a result of granting forbearance to the borrower.
[§682.211]

A lender should use forbearance as a tool to bring a delinquent or defaulted loan current. The lender should not grant any discretionary forbearance that will result in the borrower remaining delinquent. However, this restriction does not apply if, for example, the loan exits the forbearance with a delinquent status due to a nonsufficient funds (NSF) payment that was made before the forbearance was granted. For more information on granting a forbearance on a delinquent or defaulted loan, see subsection 7.11.E.

7.11.A. Discretionary Forbearance

A lender is encouraged to grant a discretionary forbearance to assist a borrower or endorser in fulfilling the repayment obligations of the loan and to help prevent default. A signed forbearance agreement is required before granting a discretionary forbearance. Situations in which the lender may choose to grant forbearance include, but are not limited to:

- Personal problems (such as economic hardship) are temporarily affecting the borrower's or endorser's ability to make scheduled payments.

- The borrower is unemployed but has already received the maximum unemployment deferment.

- The borrower has had poor health or a prolonged illness or disability but does not meet applicable disability deferment criteria.

- The borrower is attending school or is a full-time volunteer in an organization and the school or organization does not meet the appropriate deferment criteria.

- The borrower or endorser wants to change the payment amount or payment due date on a loan that requires the lender to bring the loan current first or forgo some due diligence activities (see subsection 7.4.C. for information on changing due dates).

- The borrower or endorser and the lender have agreed to establish new repayment terms that are inconsistent with the annual minimum repayment and the 10-year maximum repayment period (often called a "reduced payment" forbearance).

7.11.B. Administrative Forbearance

A signed forbearance agreement is not required before the lender grants an administrative forbearance. A lender may grant an administrative forbearance, upon notice to the borrower or endorser, for payments of principal and interest that are overdue or that would be due in the following circumstances:

- **Bankruptcy Filing**

  If the lender does not file the claim with the guarantor, the lender must suspend all collection activities on the loan and treat it as though it were in forbearance from the date the bankruptcy petition was filed through the date the lender receives the discharge notice confirming that the bankruptcy action has concluded and that the loan was not discharged. For more information on bankruptcy filings, see chapter 8.

  If the lender filed a bankruptcy claim with the guarantor, the lender does not need to administratively forbear the loan unless the guarantor requires the lender to repurchase the loan. In cases where the loan is repurchased, the lender may administratively forbear the loan from the date the bankruptcy petition was filed through the date the lender receives the claim package back from the guarantor.

  A lender is encouraged to grant an administrative forbearance for any period of delinquency before the borrower's filing of the bankruptcy petition. The lender also may grant an administrative forbearance during any period necessary for the Department or the guarantor to determine the borrower's eligibility for discharge due to the borrower's or endorser's bankruptcy.
  [§682.211(f)(5) and (7); §682.402(f)(5)]

- **Total and Permanent Disability**

  If the lender receives reliable information indicating that the borrower has become totally and permanently disabled, the lender may grant a forbearance for a period not to exceed 60 days until the lender receives documentation of the total and permanent disability.

  If the lender is advised by the borrower's physician (who is a doctor of medicine or osteopathy and is legally authorized to practice in a state) that additional time is needed either to determine if the borrower is totally and permanently disabled or to complete the

borrower's discharge documentation, the lender must grant an administrative forbearance to the borrower and, if applicable, the endorser. This period of required administrative forbearance, which cannot exceed 60 days from the date the lender receives the physician's request for additional time, is in addition to the optional period of administrative forbearance discussed above. The lender may not require the borrower to submit a request for the forbearance. For more information on the suspension of collection activities in the event of the total and permanent disability of a borrower, see subsection 8.2.C.
[§682.211(f)(6); §682.402(c)]

- **Death**

  The lender must suspend its collection activities after it receives reliable notification that the borrower or the dependent student has died. The lender must grant a forbearance for a period not to exceed 60 days until the lender receives documentation of the death. See chapter 8 for more information on the suspension of collection activities and documentation and claim filing procedures for loans that are eligible for cancellation due to the borrower's or dependent student's death.
  [§682.211(f)(6); §682.402(b)]

- **Late Notification of Out-of-School Dates**

  If the lender receives information that the borrower's loan has entered or reentered repayment, and the information is received after the date on which the repayment period began, the lender must treat the loan as though it were in forbearance. The forbearance extends from the first date of the repayment period through the date on which the first or next payment on the loan is scheduled to be due.
  [§682.211(f)(3)]

- **New Out-of-School Dates after Conversion**

  If a Stafford, PLUS, SLS, or Consolidation loan is in repayment, and the lender receives a new out-of-school date or deferment end date showing that the borrower should have entered repayment earlier than was previously reported, the lender may apply an administrative forbearance between the original repayment start date and the adjusted date. The lender may not use administrative forbearance to resolve a delinquency that existed on the loan before the information was received. After the lender's adjustments, the loan should retain the status that was applicable before the new information was received; further, due diligence must continue on the loan.

- **Delinquency before a Deferment**

  If the lender receives a deferment form indicating the borrower's deferment eligibility began before the date of default, but the deferment will not resolve the borrower's full outstanding delinquency, the lender may process an administrative forbearance to resolve the preexisting delinquency. The forbearance may be granted from the date on which the borrower's delinquency began and may be extended through the date before the first date on which the borrower is eligible for deferment.
  [§682.211(f)(2)]

- **Delinquency after a Deferment or Mandatory Forbearance**

  An administrative forbearance may be granted for a period of delinquency that may remain after a borrower ends a period of deferment or mandatory forbearance. The administrative forbearance may be applied to resolve any delinquency that exists on the date the deferment or mandatory forbearance ends, regardless of when the delinquency originally occurred, and may be extended until the date the borrower's next payment is due. For example, if the lender properly grants a borrower's request for a deferment or mandatory forbearance where the end date is in the past or if the borrower will still have a period of delinquency at the conclusion of a deferment or mandatory forbearance, a lender may process an administrative forbearance to resolve the outstanding delinquency. The lender may apply the administrative forbearance concurrently with the application of the deferment or mandatory forbearance and need not wait until the deferment or mandatory forbearance ends before applying the administrative forbearance.
  [§682.211(f)(9)]

- **Borrower Ineligible for Deferment**

  If the lender properly grants a deferment to the borrower and later learns the borrower did not qualify for the deferment, the lender is permitted to forbear the loan for any payments of interest and principal that are overdue or that would be overdue.
  [§682.211(f)(1)]

- **Repayment Alignment**

  A borrower with one or more Stafford loans that have not entered repayment and one or more SLS loans is eligible to have the repayment period start dates on these loans aligned. A borrower's request for aligned repayment may be made verbally, in writing, or on the Stafford loan application and promissory note.

  If repayment alignment is requested by an eligible borrower, the lender must align the repayment of the borrower's SLS loan(s). If the SLS loan is not eligible for deferment, the lender must apply an administrative forbearance to postpone repayment until the end of the grace period on the borrower's Stafford loan. If the borrower has multiple Stafford loans that have not yet entered repayment and those loans have grace periods that are different in length, the lender must postpone repayment of the SLS loan(s) until the end of the longest applicable Stafford loan grace period. In addition, a lender may apply an administrative forbearance to a Stafford loan(s) that has entered repayment in order to align the repayment of all the borrower's Stafford and SLS loans.

  For more information on aligning the repayment of Stafford and SLS loans and on required borrower notifications, see section 7.2.
  [§682.209(a)(2)(iii); DCL 96-L-186/96-G-287, Q&As #19 and #24]

- **Borrower Ineligible for Summer Bridge Deferment Extension**

  If the lender has extended an in-school deferment based on the student's intent to reenroll during the fall academic period, but the student fails to reenroll (and fails to establish deferment eligibility within 30 days of the date fall classes began), the lender should treat the loan as though it were in forbearance during the extension period. The forbearance begins on the day following the expiration of the borrower's last in-school deferment and ends on the 30th day after the start of fall classes. For more information on summer bridge deferment extensions, see subsection 7.10.B.

- **Closed School or False Certification**

  The lender may grant the borrower a forbearance for periods needed by the Department or the guarantor to determine the borrower's eligibility for discharge of the loan because of attendance at a school that has closed or the false certification of loan eligibility (see subsections 8.2.G. and 8.2.H.).
  [§682.211(f)(7); §682.402(d) and (e)]

- **Documentation Collection or Processing**

  The lender may grant a forbearance for a period not to exceed 60 days if the lender determines it is warranted in order to collect or process supporting documentation following a borrower's request for deferment, forbearance, a change in repayment plan, or loan consolidation. If such supporting documentation is not received within 60 days, the lender must resume servicing activities on the 61st day.

  The lender must not capitalize interest accrued during this period of administrative forbearance unless it receives documentation or information that results in the granting of a deferment or other forbearance type that would be concurrent with this period in which case capitalization is permitted.
  [HEA 428(c)(3)(D); HEA 428H(e)(7)]

- **Loan Sale or Transfer**

  The lender may grant the borrower a forbearance for a period of delinquency existing at the time the loan is sold or transferred, if the borrower or endorser is less than 60 days delinquent on the loan at the time of the loan sale or transfer.
  [§682.211(f)(8)]

- **Cure Forbearance**

  The lender may grant an administrative forbearance from the date of the earliest unexcused violation to the date the lender receives a full payment or new repayment agreement that is signed by the borrower to reinstate the guarantee on the loan.

7.11.C. Mandatory Forbearance

Upon receiving a borrower's request and documentation required to support the borrower's eligibility, a lender must grant a forbearance in any of the situations listed below. In all cases, the lender must provide the borrower with a written agreement that explains the terms of the forbearance.

- **Internship or Residency**

  A lender must grant forbearance to a qualified borrower who meets either of the following criteria:

  - The borrower has exhausted his or her eligibility for internship/residency deferment.

  - The borrower's promissory note does not provide for an internship/residency deferment.

  Eligibility and documentation requirements are the same as for a borrower who has requested an internship/residency deferment (see subsection 7.10.K.). A lender must grant forbearance in 12-month increments unless the actual period during which a borrower is eligible is less than 12 months.

  For a medical or dental internship or residency, the forbearance must cover one of the following:

  - The length of time remaining in the borrower's medical or dental internship or residency that must be successfully completed before the borrower may begin professional practice or service.

  - The length of time the borrower is serving in a medical or dental internship or residency program leading to a degree or certificate awarded by an institution of higher education, a hospital, or a health care facility offering postgraduate training.

  For any other internship or residency, the forbearance must cover one of the following:

  - The length of time remaining in the borrower's internship or residency that must be successfully completed before the borrower may begin professional practice or service.

  - The length of time the borrower is serving in an internship or residency program leading to a degree or certificate awarded by an institution of higher education.
    [HEA 428(c)(3)(a)(i)(I); §682.211(i) and (g)]

- **Debt Exceeds Monthly Income**

  The lender must grant forbearance in increments of up to one year, for periods that collectively do not exceed three years, if the borrower or endorser is currently obligated to make payments on Title IV loans and the amount of those payments each month—or a proportional share, if the payments are due less frequently than monthly—is collectively equal to or greater than 20% of the borrower's or endorser's total monthly income.

  Before granting a forbearance to a borrower or endorser, in this case, the lender must require the borrower or endorser to submit at least the following documentation:

  - Evidence of the amount of the most recent total monthly gross income received by the borrower or endorser from employment and from other sources.

  - Evidence of the amount of the monthly payments owed by the borrower or endorser to other entities for the most recent month for the borrower's or endorser's Title IV loans.
    [§682.211(i)(2) and (3)]

- **National Service, Loan Forgiveness, or Department of Defense Repayment**

  The lender must grant forbearance in yearly increments—or a lesser period equal to the actual period during which the borrower is eligible—for any period during which the borrower meets one of the following criteria:

  - Serves in a national service position for which the borrower receives a national service educational award under the National and Community Service Trust Act of 1993 (AmeriCorps).

  - Maintains eligibility for loan forgiveness under the Loan Forgiveness Demonstration Program for Child Care Providers (if the program is funded) for performing the required type of service. For more information on this program, see section 7.15.

- Performs service that would qualify the borrower for partial loan repayment under the Student Loan Repayment Programs administered by the U.S. Department of Defense under 10 U.S.C. 217l. Before granting a forbearance to a borrower or endorser under this program, the lender must require the borrower or endorser to submit documentation of the beginning and ending dates for which the U.S. Department of Defense considers the borrower to be eligible for a partial repayment of the borrower's loan under the Student Loan Repayment Programs. [§682.211(i)(2)]

Applying a Mandatory Forbearance Retroactively

A lender may grant mandatory forbearance retroactively, but single periods of forbearance may not exceed 12 months. The forbearance ends on the date that is 12 months after the date on which it began, or the date on which the borrower's eligibility ends, whichever is earlier.

7.11.D. Mandatory Administrative Forbearance

A lender is required to grant a mandatory administrative forbearance when applicable. This type of forbearance does not require the written request of the borrower. A mandatory administrative forbearance must be granted by the lender until the Department or the guarantor notifies the lender that the forbearance period no longer applies. As soon as feasible—or by the date specified by the Department—the lender must notify the borrower or endorser that the lender has granted a forbearance and indicate the date that payments should resume. The lender's notification must state that the borrower or endorser:

- May decline the forbearance and continue to be obligated to make scheduled payments.
- Consents to make payments in accordance with the lender's notification if the forbearance is not declined.

A lender must grant a mandatory administrative forbearance to a borrower or endorser during a period when the borrower or endorser is making payments for a period of:

- Up to 3 years, in cases where the effect of a variable interest rate on a standard or graduated repayment schedule would result in a loan not being repaid within the maximum repayment period.
- Up to 5 years, in cases where the effect of decreased installment amounts paid under an income-sensitive repayment schedule would result in the loan not being repaid within the maximum repayment period. [§682.211(j)]

For more information on repayment terms, see section 7.6.

Any prior delinquency is not resolved by a mandatory administrative forbearance.

For the following three types of forbearances, the lender is not required to notify the borrower or endorser at the time forbearance is granted. The lender must grant a forbearance to a borrower or endorser during any period, and during the 30 days following the period, when the lender is notified by the Department that any of the following situations apply:

1. **Local or National Emergency**

   The lender must grant a forbearance for a local or national emergency. The lender may not require a borrower to submit a request for the forbearance or supporting documentation.

2. **Military Mobilization**

   The lender must grant a forbearance for a military mobilization. A military mobilization is defined as a situation in which the U.S. Department of Defense orders members of the National Guard or the Reserves to active duty under sections 672(a), 672(g), 673, 673b, 674, or 688 of Title 10, United States Code. A military mobilization also includes the assignment of other members of the Armed Forces to duty stations at locations other than the locations at which they are normally assigned, if the military mobilization involves the activation of the National Guard or the Reserves. The lender must require a borrower or endorser who requests forbearance because of a military mobilization to provide documentation showing that the borrower is subject to a military mobilization as described above.

3. **Disasters**

   A lender must grant a forbearance for a borrower or endorser if the geographic area in which the borrower or endorser resides has been designated a disaster area by the president of the United States or Mexico, the prime minister of Canada, or by a governor of a state. The lender may not require a borrower to submit a request for the forbearance or supporting documentation.

7.11.E. Forbearance of Delinquent or Defaulted Loans

A lender may grant forbearance to a borrower or endorser to permit the resumption of payments following the date of default. To resolve the delinquency, the terms of a discretionary forbearance agreement made after default must include the borrower's or endorser's signature and a new signed agreement to repay the debt. A new signed agreement to repay the debt is not required if an administrative forbearance is applied to resolve a delinquency remaining after a deferment request that resolves a borrower's default has been granted.
[§682.211(d); §682.211(f)(9)]

A lender must not administratively forbear a delinquent borrower in cases where the borrower is delinquent before a mandatory forbearance or a mandatory administrative forbearance. A lender should resolve any delinquencies that exist before these two types of forbearance by working with the borrower to grant a discretionary forbearance.

7.11.F. Forbearance Length

With the exception of an administrative forbearance that is not subject to a maximum time frame, a lender may grant a single forbearance for up to one year at a time if both the borrower or endorser and the lender agree in writing. This one year includes any past and future forbearance months. For example, a forbearance that is granted for 3 months retroactively may extend only 9 months into the future.

Occasionally, a borrower's temporary economic hardship will continue to prevent the borrower or endorser from making regularly scheduled loan payments—even after the forbearance expires. If additional forbearance is warranted after the expiration of the first forbearance period, the lender must obtain additional documentation to grant another forbearance.
[§682.211(c)]

Federal regulations require that a single forbearance be granted for no longer than a 12-month interval. The Department has indicated that it does not interpret this provision of the regulations to prohibit a lender, in applying the 12-month maximum forbearance period, from granting forbearance for a retroactive as well as a prospective period as long as the period of each forbearance agreement does not exceed 12 months. As it relates to granting a forbearance to a borrower for a prospective period, a lender is expected to clarify the end date of the period requested by the borrower because the forbearance period must not extend beyond the date for which the borrower requests and otherwise qualifies for this relief. However, when a delinquent borrower submits a forbearance request, but does not properly identify the period of forbearance or identifies a period of forbearance that does not correspond to the delinquency status of the borrower's loan, the lender may grant the forbearance retroactively to resolve the borrower's delinquency, provided the duration of each forbearance agreement does not exceed the maximum 12-month limit. The lender is expected to notify the borrower of the actual forbearance period granted. If the lender has lost insurance on the loan, the lender must perform a cure to reinstate the guarantee on the loan. See subsection 8.8.F. for more information about curing a loan to reinstate the guarantee.

7.11.G. Borrower Contact during Forbearance

Whenever granting forbearance involves postponing all payments, the lender must contact the borrower or endorser by telephone or send a written notice at least once every 3 months during the forbearance period to remind the borrower or endorser of the obligation to repay the loan. This requirement does not apply for postponement of interest payments during a deferment period or forbearance for an internship or residency.
[§682.211(e)]

7.11.H. Payment of Interest during Forbearance

In cases when a forbearance agreement is required, the borrower and the lender must agree to the way in which the interest accruing during the forbearance will be paid. If interest during a period of deferment is forborne, the lender must notify the borrower at the time of the deferment that interest payments are to be forborne.

If payments of interest are forborne, they may be capitalized. For more information on capitalizing interest, see subsection 7.7.B.
[§682.202(b)]

7.11.I. Documentation Required for Authorized Forbearance

A lender may use a form that is acceptable to the guarantor for the purpose of obtaining a signed forbearance agreement. In cases where a signed forbearance agreement must be obtained, the lender must maintain a copy of this agreement, including the beginning and ending dates for each forbearance. If a signed forbearance agreement is not required, the lender must document the beginning and ending dates—as well as the reason for granting forbearance—in the borrower's file or the servicing history of the loan.

7.11.J. Reporting Forbearances

Under the Department's NSLDS reporting requirements, a lender must report forbearances to the guarantor, including the date each forbearance begins. When a forbearance ends, the lender must report the new loan status and the effective date. For more information on lender reporting, see section 3.5.

7.11.K. Resuming Repayment after Forbearance

A borrower's first payment due date after an authorized forbearance generally must be no later than 45 days following the date that the forbearance expires. For a Stafford loan, federal regulations permit the lender to extend the first due date an additional 30 days beyond the standard 45-day limit, if the extension is necessary to permit the lender to comply with requirements that the repayment disclosure be sent to the borrower no less than 30 days before the first payment on the loan is due.

A borrower must be notified of any interest capitalized due to the forbearance. The notice should include the new principal balance and any other repayment term changes (such as a new monthly payment amount) resulting from the interest being capitalized. The lender may develop its own format for disclosing such information or may use a repayment schedule and disclosure form provided by a guarantor. For more information on loan repayment, see subsection 7.5.D.
[§682.205(c); §682.209(a)(3)(ii)(B)]

7.12 Ineligible Borrowers

A student for whom a Stafford or PLUS loan has been guaranteed is considered ineligible to receive the loan proceeds if any of the following occurs:

- The borrower or student provided false or erroneous information.
- The borrower or student did not qualify for all or a portion of the loan (see subsections 5.2.A. and 5.2.B. for information regarding eligibility requirements).
- The borrower received federal interest benefits on a subsidized Stafford loan for which the borrower did not qualify.
- The student withdrew prior to the first day of classes, or was expelled prior to the first day of classes, or failed to attend classes, and the borrower did not repay loan proceeds received to either the school or the lender.

When a lender discovers or is notified by a school or guarantor at any time that a borrower was ineligible for any portion of a loan, the lender, in conjunction with the school and/or guarantor must determine which party was responsible for the error: the borrower, the school, or the lender.

7.12.A.
Ineligibility Based on Borrower Error

In some situations, a borrower is considered ineligible for a loan due solely to his or her own error. The key factor in determining whether the borrower is solely responsible for his or her ineligibility is whether the borrower provided false or incorrect information in the loan application process or acted in a way that caused the borrower to be ineligible for the loan.

Examples of situations in which a borrower is considered solely responsible for his or her ineligibility include, but are not limited to:

- Funds are delivered to a student or parent during the 10-day period prior to the first day of the first payment period in an enrollment period, but the student never attends classes, or withdraws, or is expelled prior to the first day of the first payment period and fails to pay those funds to the school or repay the funds to the lender.

- A borrower misrepresents his or her eligibility for a loan. Examples of such misrepresentation are the misreporting of family size, income, or student or borrower default status.

If a school delivers loan funds to or on behalf of an otherwise eligible borrower during the 10-day period prior to the first day of a second or subsequent payment period, and the student does not attend any classes in the second or subsequent payment period, or withdraws, or is expelled prior to the first day of the second or subsequent payment period, the school must determine whether the borrower was eligible to receive the funds. If the school determines that the borrower was ineligible for the loan funds, the school must notify the lender of the borrower's receipt of ineligible funds (see subsection 8.1.M. for lender servicing requirements for ineligible loans). If the borrower was eligible for the funds, the school must adhere to the applicable refund and repayment guidelines (see section 4.7). The school will not be assessed any liability for delivering loan funds in this instance unless the school knew or should have known that the borrower was ineligible to receive the funds at the time they were delivered.

When a borrower is solely responsible for his or her ineligibility, the borrower is not eligible for interest benefits, an in-school or grace period, or deferment on these ineligible funds. Additionally, the borrower may not obtain a Consolidation loan or rehabilitate ineligible loan funds, and may not have his or her Title IV eligibility reinstated by making satisfactory repayment arrangements on an ineligible amount. The borrower must fully repay the ineligible funds to regain Title IV eligibility.

If it is determined that the borrower is *solely* responsible for the ineligibility of the funds, the lender must immediately mail the borrower a final demand letter and follow the ineligible borrower due diligence requirements outlined in subsection 8.1.M.
[§682.208(f)]

Some guarantors have more specific requirements regarding when a final demand letter must be mailed. These requirements are noted in appendix C.

7.12.B.
Ineligibility Based on School Error

In some cases, a borrower may receive loan funds for which he or she is ineligible due to a school error. These errors may include, but are not limited to:

- The school delivers funds to a borrower who has not maintained eligibility.

- The school certifies and delivers loan funds in excess of the borrower's eligibility.

- The school certifies and delivers loan funds to an ineligible borrower (for example, a borrower in default on another Title IV loan).

- The student fails to enroll in a course leading to a degree or certificate, and the course in which the student enrolls is not required for teacher recertification in the state in which the school is located.

If the lender discovers that a borrower received a loan, or portion of a loan, for which the borrower is ineligible because of a school error, the lender should contact the guarantor. The lender must continue to service the loan in accordance with regulatory requirements. The guarantor will investigate the case and, if necessary, require the school to purchase any ineligible portion of the loan from the lender and repay any interest and special allowance paid by the Department.

If a borrower misrepresents or misreports information that the school is required to verify, and the school fails to verify the information, resulting in the borrower's receipt of funds for which he or she is ineligible, the ineligibility must be considered a school error regardless of any error made by the borrower. In this situation the school must repay the ineligible amount to the lender. The amount paid to the lender must include the ineligible amount disbursed plus any outstanding accrued interest due to the lender, but must not include any payment or prepayment made by the borrower prior to the date the school repays the ineligible funds. The school also must pay to the Department all interest and special allowance benefits paid to the lender from the date of disbursement to the date the school repays the funds. If the school refunds the interest and special allowance to the lender, the lender must make an appropriate adjustment on its next quarterly ED Form 799. Until the school repays the lender, the lender must continue to service the loan as an eligible FFELP loan. If the school is required to repay the entire loan amount, the school may request that the lender assign the original promissory note to the school at the time the school returns the ineligible loan funds to the lender.

If the original promissory note is assigned to the school, the loan becomes a legal obligation between the school and the borrower. The borrower remains eligible for benefits identified in the promissory note, including deferment and various repayment options; however, the school is prohibited from billing the Department for any interest benefits or special allowance payments, and the loan is no longer insured by the guarantor. The borrower then repays to the school all funds delivered based on the terms of the promissory note.

Some guarantors have additional requirements regarding school and lender obligations when a loan is determined to be ineligible due to school error. These requirements are noted in appendix C.

7.12.C.
Ineligibility Based on Lender Error

If the borrower receives funds for which he or she is not eligible due to a lender error, the lender may not bill the Department for interest or special allowance on the ineligible portion of the loan, and must refund to the Department any such amounts already paid. The ineligible portion of the loan is not insured by the guarantor. However, the borrower remains eligible for all benefits identified in the promissory note, including deferment and various repayment options.

An example of ineligibility due to lender error is the disbursement of funds to a student attending a foreign institution when the lender has received information, prior to the disbursement of such funds, that the student is no longer enrolled at least half time.

7.13
Paid-in-Full Loans

A lender must maintain loan records for a period of no less than 5 years after the date the corresponding loan is paid in full. This requirement is applicable regardless of whether the loan is repaid by the borrower, repaid by the school in a refund of the full loan amount, paid by claim, or paid in full by consolidation. For more information on lender recordkeeping requirements for paid-in-full loans, see subsection 3.4.A.

The lender must report to the guarantor all loans that are paid in full. For information on reporting paid-in-full loans to the guarantor, see subsection 3.5.H.

7.14
Loan Forgiveness Program for Teachers

The Loan Forgiveness Program for Teachers is intended to encourage individuals to enter and continue in the teaching profession. Under this program, the Department repays a portion of a borrower's Stafford loan obligations. In order to be eligible for this forgiveness program, the following criteria must be met:

- The borrower must be a "new borrower" on or after October 1, 1998.
- The borrower must have been employed as a full-time teacher for five consecutive, complete academic school years in a school that qualifies—in at least one of the 5 years of service—for loan cancellation for Perkins Loan recipients who teach in such schools. Each borrower must meet one of the following criteria:
    - If employed as an elementary school teacher, the borrower must have demonstrated knowledge and teaching skills in reading, writing, mathematics, and other areas of the school's curriculum, as certified by the chief administrative officer of the school in which the borrower is employed.
    - If employed as a secondary school teacher, the borrower must be teaching a subject which is relevant to the borrower's academic major, as certified by the chief administrative officer of the secondary school in which the borrower is employed.
- The borrower must not be in default on a loan for which the borrower seeks forgiveness.

The Department will repay, on behalf of a qualified borrower, no more than $5,000 of the borrower's outstanding Stafford loan balances (or the outstanding portion of a Consolidation loan balance used to repay qualifying Stafford loans) at the end of the 5th complete year of teaching. Receipt of a benefit under this program does not entitle the borrower to a refund of any payments made on the loan.

No borrower may, for the same service, receive a benefit under both the loan forgiveness Program for Teachers and subtitle D of Title I of the National and Community Service Act of 1990. In addition, the borrower may not receive this benefit under both the FFELP and the FDLP.
(HEA 428J)

As of this printing, processes and procedures for applying for Loan Forgiveness have not been defined, but are being addressed by the community in its discussions with the Department.

7.15
Loan Forgiveness Demonstration Program for Child Care Providers

This program currently is not funded by Congress. The Department will implement this program only if funding is made available.

The Loan Forgiveness Demonstration Program for Child Care Providers is intended to bring more highly trained individuals into the early child care profession and to retain those providers for longer periods of time. Under this demonstration program, the Department would repay up to 100% of a borrower's Stafford loan obligations. For the purpose of this program, the term "child care services" is defined as activities and services provided for the education and care of children from birth through age 5.

If the program is implemented, borrowers must meet the following criteria to qualify for this forgiveness program:

- The borrower must be a "new borrower" on or after October 8, 1998.
- The borrower must complete a degree in early childhood education. This field is defined as education in the areas of early child education, child care, or any other educational area related to child care that the Department determines to be appropriate.
- The borrower must obtain employment in a child care facility, defined as a facility, including a home, that provides child care services and meets the applicable state or local government licensing, certification, approval, or registration requirements, if any.
- The borrower must work full-time as a child care provider for the two consecutive and immediately preceding years in a low-income community, defined as a community in which 70% of households within the community earn less than 85% of the state's median household income.

If the borrower qualifies, the Department will pay—on a first-come, first-served basis, subject to the availability of funds—a percentage of the total amount of all eligible loans (excluding PLUS and Consolidation Loans) at the rate of:

20% after completion of the 2nd year
20% after completion of the 3rd year
30% after completion of the 4th year
30% after completion of the 5th year

The Department will also pay a proportionate amount of the interest that accrues each year.

If an individual not participating in this program returns to school, after initially graduating from school, to obtain an associate or baccalaureate degree in early childhood education, the student may apply to the Department for repayment under this forgiveness program of qualified loans received for a maximum of two academic years when the student returned to school. Repayment by the Department will be made in accordance with the preceding rate schedule.

The Department will give loan repayment priority to borrowers who received forgiveness in the prior year.
No borrower may, for the same service, receive a benefit under both this Loan Forgiveness Program for Child Care Providers and subtitle D of Title I of the National and Community Service Act of 1990.

Qualified borrowers may request loan forgiveness at the end of each year of eligible child care employment by completing an application as required by the Department. During the period of eligible employment, a borrower shall receive a forbearance unless the borrower qualifies for a deferment. Receipt of a benefit under this program does not entitle the borrower to a refund of payments made on the loan.
(HEA 428K)

As of this printing, processes and procedures for applying for loan forgiveness have not been defined, but are being addressed by the community in its discussions with the Department.

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8 Delinquency, Default, and Claims

8 Delinquency, Default, and Claims

Lenders should note that this chapter does not yet reflect guidance specific to loans made using the Master Promissory Note (MPN). The U.S. Department of Education and the FFELP community did not approve MPN-specific guidance on loan servicing, delinquency, and claims in time for the July 1999 updates of this manual.

Lenders are expected to make a good-faith effort to administer loans made under the MPN in accordance with current statute, regulations, and guarantor policies noted in this manual. Lenders are encouraged to contact individual guarantors with questions regarding the administration of loans made using the MPN.

Chapter 8 identifies the due diligence requirements and claim filing procedures to which lenders must adhere. Compliance with these requirements is crucial; failure to comply may result in an inability to collect the loan and the cancellation of the loan's guarantee.
[§682.401(b)(19)]

8.1
Required Due Diligence Activities

Due diligence activities must be performed in the following situations:

- A borrower is delinquent in making payments.
- A lender is unable to determine the location of a borrower whose loan is delinquent.
- A borrower is determined to be ineligible for a loan (due to the borrower's or student's error).

Any reference to a borrower in this chapter also refers to any applicable comaker—one of two PLUS or Consolidation loan borrowers who are held jointly and severally liable for the loan's repayment. Therefore, due diligence activities required for the borrower are also required for the comaker. See subsection 8.1.E. for more information on comaker due diligence.

The lender due diligence requirements contained in chapter 8 preempt any state law—including state statutes, regulations, or rules—that would conflict with or hinder a lender's satisfaction of the requirements or frustrate the purposes of this chapter's requirements.

8.1.A.
Minimum Due Diligence Standards

Default prevention must be the goal of a lender's collection practices on its delinquent loans. The lender should develop a systematic and thorough approach to collecting on its loans. The lender may use its own consumer loan collection practices in addition to those prescribed in this chapter. Lenders are strongly encouraged to develop standards that are in the best interest of both borrowers and the FFELP. In addition, a lender must respond to any inquiry from a borrower or any endorser on a loan within 30 days of receiving the inquiry.
[§682.208(c)]

The due diligence standards outlined in this chapter are *minimum* requirements for retaining the guarantee on a loan. A lender must ensure that its collection practices meet these minimum standards and that all required due diligence activities are conducted as prescribed. Failure to meet these standards within their respective time frames may result in the rejection of a lender's claim, cancellation of the guarantee on a loan, or a reduction of the interest that would normally be paid at the time of claim purchase.

Some guarantors permit the suspension of collection activities in response to "unofficial" notification of a borrower's bankruptcy filing. These provisions are noted in appendix C.

If, at any time during collection activities, a lender learns that a borrower may be eligible for a deferment, the lender must explain the conditions for obtaining the deferment and make the deferment option available. A borrower who has not yet defaulted on his or her loan must be granted a deferment if he or she meets all applicable eligibility requirements (see subsection 7.9.D.).
[§682.210(a)(7)]

A lender may grant a deferment after a borrower has defaulted on a loan if the borrower submits the necessary deferment documentation and makes payment arrangements acceptable to the lender to resolve the default (see subsection 7.9.E.)
[§682.210(a)(8)]

A lender is encouraged to grant forbearance to a borrower or endorser who intends to repay a loan, but who is temporarily unable to make payments due to poor health or other personal problems and does not qualify for a deferment or mandatory forbearance (see subsection 7.11.A.).
[§682.211(a)]

If either the borrower or the endorser is granted a forbearance, collection activities outlined in subsection 8.1.D. must be suspended on the loan.
[DCL 96-L-186/96-G-287, Q&As #59 and #60]

8.1.B.
Delinquency of Loans

A loan is considered delinquent if a payment has not been received by the day after the payment due date. A lender must ensure that the due date of the first payment is established according to the requirements described in subsection 7.4.B.
[§682.411(b)]

Applying Payments Received during Delinquency

Except for a payment received from a school (a school refund), any payment received from or on behalf of a borrower who has a delinquent loan must be applied to resolve the earliest missed payment—unless the payment is made by a comaker, cosigner, or endorser for a specific loan. If a lender's policy permits, a borrower's due date may be advanced if the payment received is within $5 of the amount due or the borrower's regularly scheduled payment amount (see subsection 7.8.A.).
[§682.411(b); DCL 96-L-186/96-G-287, Q&A #46, and May 1996 supplement to the DCL]

If a lender receives a payment that equals or exceeds the amount of a single monthly payment (which may include late charges), the lender must, unless otherwise requested by the borrower, use that payment to advance the due date on the borrower's loan at least one month, regardless of how those monies are applied to collection or late charges, principal, or interest (see subsection 7.8.B.).
[§682.209(b)]

Rolling Delinquency

A rolling delinquency occurs when the delinquent status of a loan is increased or reduced—but not completely eliminated—as the result of any of the following:

- A payment.
- The reversal of a payment (such as a nonsufficient funds check).
- The expiration of a deferment or forbearance.
- The receipt of a new out-of-school date.

> EXAMPLE
> A borrower's loan becomes 120 days delinquent. The borrower remits a payment that reduces the delinquency to 30 days delinquent. The lender must now repeat certain activities on the loan as the borrower's delinquency again increases. For example, a request for preclaim assistance must be submitted if the borrower's delinquency again reaches the level at which preclaim assistance is required (see subsection 8.1.J.).
> [§682.411(d)(3)]

A rolling delinquency affects due diligence requirements, as noted in subsection 8.1.D.

Special Occurrence

A lender's due diligence requirements may at times be affected by an event that does not change a borrower's payment due date. Such an event is known as a "special occurrence." A special occurrence results from one or both of the following:

- The lender's receipt of a valid telephone number for the borrower.
- The lender's receipt of a valid address for the borrower.

In the event of a special occurrence, the lender is required to perform all due diligence activities appropriate to the level of delinquency on the loan at the time the event occurred, as noted in subsection 8.1.D.

> EXAMPLE
> A lender receives returned mail and also discovers that it does not have a valid telephone number for a borrower whose loan is not yet delinquent. The lender chooses to perform all required skip tracing activities but fails to locate the borrower or obtain a valid telephone number. The loan subsequently becomes delinquent. No due diligence activities are required at this point, except that the lender must file a request for preclaim assistance with the guarantor. The lender then receives the borrower's valid address and a valid telephone number from the guarantor, school, or another source. A "special occurrence" has now taken place. The lender is required to perform due diligence activities applicable to the level of delinquency of the loan at the time the lender is notified of the borrower's valid address and telephone number.

8.1.C.
Collection Costs and Late Charges

As permitted under federal regulations, applicable state law, and the terms of the promissory note, a lender may assess the borrower reasonable collection costs and late charges for expenses incurred in collecting a missed payment. This may include court costs and attorney fees, but may not include the costs of standard collection activities (preparing and mailing notices, making personal contacts and telephone calls, etc.). A lender may deduct allowable collection costs and late charges directly from any payment received from the borrower.
[§682.202(f) and (g)]

8.1.D.
Due Diligence Schedules and Activities

To satisfy due diligence requirements, a lender must perform the collection activities specified in the following schedules. A lender may perform the required activities in the manner that is most effective—provided the minimum number of written contacts and telephone attempts are made and no gap of greater than 45 days in activity occurs. If a lender fails to complete any of the required activities within the corresponding time frame or permits a gap between activities of 46 days or more, it may incur interest penalties or jeopardize the guarantee on the loan. If the guarantee on a loan is lost, the lender also loses the right to collect interest benefits and special allowance payments otherwise payable by the Department from the date of the earliest unexcused violation.

A lender is permitted a 5-day tolerance at the end of each time frame during which due diligence activities are required. This permits the lender to perform, without penalty, some activities later than prescribed.

If a lender has a valid address for a borrower, but does not have his or her valid telephone number, the lender must make diligent attempts to obtain a telephone number (as described in subsection 8.1.H.) and continue to fulfill other due diligence requirements, such as sending letters or notices and requesting preclaim assistance in a timely manner.

If a delinquent borrower's or endorser's address is unknown, a lender must perform skip tracing activities (as described in subsection 8.1.I.) instead of normal collection activities for the individual whose address is unknown. Due diligence activities must continue for the individual whose address *is* known. If the lender initiates and exhausts its efforts to locate the borrower or endorser before the beginning of the borrower's or endorser's delinquency, the lender is not required to initiate new skip tracing activities unless a new address is obtained and the borrower or endorser subsequently becomes a skip before the date on which the final demand letter is mailed. The lender must submit another request for preclaim assistance if the borrower's loan again ages below the level at which preclaim assistance is required by the guarantor (see subsection 8.1.J.).
[DCL 96-L-186/96-G-287, Q&As #59 and #60]

For loans on which payments of interest are due, a lender may schedule a borrower for interest-only payments—if the borrower requests such payments—during in-school and grace periods, during deferment, and during forbearance for periods of required medical or dental internship. If a borrower fails to make scheduled interest-only payments, the only activities required of lenders for the period during which an interest-only payment is delinquent are those outlined in subsection 7.7.B.
[§682.202(b)(5)]

A lender also may schedule a borrower for a reduced payment forbearance. The reduced payments may or may not exceed the amount of accruing interest. If a borrower fails to fulfill his or her agreement to make the reduced payments, the lender must comply with the terms of the original forbearance agreement (capitalize interest and resume collection activity).

If the borrower fails to make interest-only payments as scheduled and his or her address is not valid, the lender need not send the notice that is otherwise required, but may capitalize the delinquent interest.

A lender may file a default claim solely on the basis of delinquent interest-only payments only if the payments are the result of an income-sensitive repayment schedule.

Due Diligence Requirements for Loans with Monthly Repayment Obligations

If a lender has a valid address and telephone number for a borrower with a monthly repayment obligation, the lender must perform the following due diligence activities within the noted time frames:

1–15 days delinquent

The lender must send the borrower at least one written notice or collection letter informing the borrower of the delinquency and urging the borrower to make payments sufficient to eliminate the delinquency. The notice or collection letter sent during this period must include, at a minimum, lender/servicer contact information and a telephone number (e.g., the name and telephone number of the customer service department). It also must include a prominent statement informing the borrower that assistance may be available if he or she is experiencing difficulty in making a scheduled repayment.
[§682.411(c)]

16–180 days delinquent

If there is no rolling delinquency and no special occurrences exist on the account, the lender must perform the following activities:

- Make at least four diligent efforts (each consisting of one successful contact or two unsuccessful attempts) to contact the borrower by telephone. At least one diligent effort to contact the borrower by telephone must occur on or before the 90th day of delinquency, and another must occur after that date (see subsection 8.1.G.).

- Send the borrower at least four written notices or collection letters informing the borrower of the delinquency and urging the borrower to make payments. The required notices or collection letters sent during this period must include, at a minimum, information regarding deferment, forbearance, income-sensitive repayment, loan consolidation, and other available options to avoid default. At least two of the collection letters must warn the borrower that if the loan is not paid *(a)* the loan may be assigned to the guarantor, which would result in a default being reported to all national credit bureaus, and *(b)* the guarantor may offset the borrower's state and federal tax refunds and other payments made by the federal government to the borrower, garnish the borrower's wages, or assign the loan to the federal government for litigation against the borrower.
[§682.411(d)(1) and (2); DCL 96-L-186/96-G-287, Q&A #53]

If a rolling delinquency or special occurrence (see subsection 8.1.B.) exists on the account, the lender must perform the requirements applicable to the time frames noted:

- If the account is 1–15 days delinquent as a result of a rolling delinquency or at the time of a special occurrence, the lender must follow the preceding due diligence requirements for loans that subsequently become 16 days or more delinquent. These requirements must include at least four diligent efforts to contact the borrower by telephone and at least four collection letters. At least one diligent effort must be performed on or before the 90th day of delinquency and one after the 90th day of delinquency.
[DCL 96-L-186/96-G-287, Q&A #50 and #51]

- If the account is 16–90 days delinquent as a result of a rolling delinquency or at the time of a special occurrence, the lender must make two diligent efforts to contact the borrower by telephone before the 181st day of delinquency (not applicable if the borrower's telephone number is invalid). Each diligent effort must involve one successful contact or two unsuccessful attempts to contact the borrower by telephone. Please note that the requirement to perform one diligent telephone effort on or before the 90th day of delinquency does not apply. If, despite these efforts, the lender is unable to contact the borrower by telephone, the lender must send at least two forceful collection letters. If the lender's telephone efforts result in only a single contact with the borrower, the lender must send at least one forceful collection letter.
[§682.411(d)(3)(i); DCL 96-L-186/96-G-287, Q&As #50 and #51, and May 1996 supplement to the DCL]

- If the account is 91–120 days delinquent as a result of a rolling delinquency or at the time of a special occurrence, the lender must make one diligent effort to contact the borrower by telephone before the 181st day of delinquency (not applicable if the borrower's telephone number is invalid). This diligent effort must involve one successful contact or two unsuccessful attempts to contact the borrower by telephone. If, despite these efforts, the lender is unable to contact the borrower by telephone, the lender must send at least one forceful collection letter.
[§682.411(d)(3)(ii); DCL 96-L-186/96-G-287, Q&As #50 and #51, and May 1996 supplement to the DCL]

- If the account is more than 120 days delinquent as a result of a rolling delinquency or at the time of the special occurrence, no further diligent efforts to contact the borrower by telephone are required. The lender need only mail the final demand letter.
[§682.411(d)(4)(iv)]

- The final demand letter must be mailed to the borrower, as scheduled, if the lender has a valid address for the borrower. A new final demand letter need not be mailed if the borrower remains 151 days or more delinquent and a timely final demand letter previously was mailed to the borrower and a rolling delinquency occurs or there is a special occurrence (see subsection 8.1.B.).
[§682.411(e)]

- In all cases, no gap in collection activity greater than 45 days may exist.

Preclaim Request Period

The lender must request preclaim assistance from the guarantor within 10 days before or after the date assistance is available from the guarantor (see subsection 8.1.J.). The lender must request preclaim assistance regardless of the status of the borrower's address (valid, invalid, unknown, etc.).
[§682.411(h)]

151 or more days delinquent

The lender must mail a final demand letter to the borrower anytime the loan becomes 151 days or more delinquent. There are two exceptions to this requirement, under which the lender is excused from mailing the borrower a final demand letter:

- The loan becomes 151 days or more delinquent and the borrower's address is invalid and remains invalid after the lender has exhausted all required skip tracing activities and required diligent efforts.

- The lender previously mailed a timely final demand letter prior to a rolling delinquency or a special occurrence (see subsection 8.1.B.) and the borrower is 151 days or more delinquent.

The final demand letter must require the borrower to remit payment in full and warn that if no payment is received, the default will be reported to a national credit bureau. The lender must allow the borrower at least 30 days after the date the letter is mailed to respond to the final demand letter and to bring the loan out of default before filing a default claim on the loan.
[§682.411(e); 682.411(g)(3)]

A lender may continue the collection efforts required in the 16–180 days of delinquency after mailing the final demand letter to the borrower. However, those collection efforts should be restricted to diligent efforts to contact the borrower by telephone. Any collection effort (verbal or written) made or performed as made-up activity after the date the final demand letter is mailed must support the final demand (see subsection 8.8.C.).
[DCL 96-L-186/96-G-287, Q&A #54]

Some guarantors have additional requirements regarding collection efforts after the final demand. These requirements are noted in appendix C.

181–270 days delinquent

The lender must file a default claim with the guarantor (see subsection 8.2.A.). A lender is encouraged to file a default claim on or after the 210th day of delinquency to permit the borrower the longest possible period in which to resolve the outstanding delinquency and avert default.

Loans on which claims are filed before the 240th day of delinquency generally are eligible for special allowance payment through the date of claim payment (see subsection A.2.B. for limitations). Loans on which claims are filed beyond the 240th day of delinquency are not eligible for special allowance payment beyond the 240th day of delinquency.
[§682.302(d)(1)(iv) and (v)]

Other Requirements

No gap of 46 days or more (61 days in the case of a loan sale or transfer) may occur in collection activities. See subsection 8.8.B. of this chapter for a definition of what constitutes a gap in collection activity.
[§682.411(b)(2)]

If the borrower's address or telephone number is unknown, the lender must follow the skip tracing requirements described in subsections 8.1.H. and 8.1.I.

Due Diligence Requirements for Loans with Repayment Obligations Less Frequent Than Monthly

For a borrower with a delinquent account scheduled for repayment in installments less frequent than monthly (such as quarterly), the lender must perform the following due diligence activities within the noted time frames:

1–15 days delinquent

The lender must send the borrower at least one written notice or collection letter informing the borrower of the delinquency and urging the borrower to make payments sufficient to eliminate the delinquency. The notice or collection letter sent during this period must include, at a minimum, lender/servicer contact information and a telephone number (e.g., the name and telephone number of the customer service department). It also must include a prominent statement informing the borrower that assistance may be available if he or she is experiencing difficulty in making a scheduled repayment.
[§682.411(c)]

16–240 days delinquent

If there is no rolling delinquency and no special occurrences exist on the account, the lender must perform the following activities:

- Make at least four diligent efforts (each consisting of one successful contact or two unsuccessful attempts) to contact the borrower by telephone. At least one diligent effort to contact the borrower by telephone must occur on or before the 120th day of delinquency, and another must occur after that date (see subsection 8.1.G.).

- Send the borrower at least four written notices or collection letters informing the borrower of the delinquency and urging the borrower to make payments. The required notices or collection letters sent during this period must include, at a minimum, information regarding deferment, forbearance, income-sensitive repayment, loan consolidation, and other available options to avoid default. At least two of the collection letters must warn the borrower that if the loan is not paid *(a)* the loan may be assigned to the guarantor, which would result in a default being reported to all national credit bureaus, and *(b)* the guarantor may offset the borrower's state and federal tax refunds and other payments made by the federal government to the borrower, garnish the borrower's wages, or assign the loan to the federal government for litigation against the borrower.
  [§682.411(d)(1) and (2); DCL 96-L-186/96-G-287, Q&A #53]

If a rolling delinquency or a special occurrence (see subsection 8.1.B.) exists on the account, the lender must perform the requirements applicable to the time frames noted:

- If the account is 1–15 days delinquent as a result of a rolling delinquency or at the time of a special occurrence, the lender must follow the preceding due diligence requirements for loans that subsequently become 16 or more days delinquent. These requirements must include at least four diligent efforts to contact the borrower by telephone and at least four collection letters. At least one diligent effort must be performed on or before the 120th day of delinquency and one after the 120th day of delinquency.
  [DCL 96-L-186/96-G-287, Q&As #50 and #51]

- If the account is 16–120 days delinquent as a result of a rolling delinquency or at the time of a special occurrence, the lender must make two diligent efforts to contact the borrower by telephone before the 241st day of delinquency (not applicable if the borrower's telephone number is invalid). Each diligent effort must involve one successful contact or two unsuccessful attempts to contact the borrower by telephone. Please note that the requirement to perform one diligent telephone effort on or before the 120th day of delinquency does not apply. If, despite these efforts, the lender is unable to contact the borrower by telephone, the lender must send at least two forceful collection letters. If the lender's telephone efforts result in only a single contact with the borrower, the lender must send at least one forceful collection letter.
  [§682.411(d)(3)(i); DCL 96-L-186/96-G-287, Q&As #50 and #51, and May 1996 supplement to the DCL]

- If the account is 121–180 days delinquent as a result of a rolling delinquency or at the time of a special occurrence, the lender must make one diligent effort to contact the borrower by telephone before the 241st day of delinquency (not applicable if the borrower's telephone number is invalid). This diligent effort must involve one successful contact or two unsuccessful attempts to contact the borrower by telephone. If, despite these efforts, the lender is unable to contact the borrower by telephone, the lender must send at least one forceful collection letter.
  [§682.411(d)(3)(ii); DCL 96-L-186/96-G-287, Q&As #50 and #51, and May 1996 supplement to the DCL]

- If the account is more than 180 days delinquent as a result of a rolling delinquency or at the time of a special occurrence, no further diligent efforts to contact the borrower by telephone are required. The lender need only mail the final demand letter.
[§682.411(d)(4)(iv)]

- The final demand letter must be mailed to the borrower, as scheduled, if the lender has a valid address for the borrower. A new final demand letter need not be mailed if the borrower remains 211 days or more delinquent and a timely final demand letter previously was mailed to the borrower and a rolling delinquency occurs or there is a special occurrence (see subsection 8.1.B.).

- In all cases, no gap in collection activity greater than 45 days may exist.

Preclaim Request Period

The lender must request preclaim assistance from the guarantor within 10 days before or after the date assistance is available from the guarantor (see subsection 8.1.J.). The lender must request preclaim assistance regardless of the status of the borrower's address (valid, invalid, unknown, etc.).
[§682.411(h)]

211 or more days delinquent

The lender must mail a final demand letter to the borrower if the borrower's address is known (see subsection 8.1.L.) anytime the loan becomes 211 days or more delinquent. There are two exceptions to this requirement, under which the lender is excused from mailing the borrower a final demand letter:

- The loan becomes 211 days or more delinquent and the borrower's address is invalid and remains invalid after the lender has exhausted all required skip tracing activities and required diligent efforts.

- The lender previously mailed a timely final demand letter prior to a rolling delinquency or a special occurrence (see subsection 8.1.B.) and the borrower is 211 days or more delinquent.

The final demand letter must require the borrower to remit payment in full and warn that if no payment is received, the default will be reported to a national credit bureau. The lender must allow the borrower at least 30 days after the date the letter is mailed to respond to the final demand letter and to bring the loan out of default before filing a default claim on the loan.
[§682.411(e); §682.411(g)(3)]

A lender may continue the collection efforts required in the 16–240 days of delinquency after mailing the final demand letter to the borrower. However, those collection efforts should be restricted to diligent efforts to contact the borrower by telephone. Any collection effort (verbal or written) made or performed as made-up activity after the date the final demand letter is mailed must support the final demand (see subsection 8.8.C.).
[DCL 96-L-186/96-G-287, Q&A #54]

Some guarantors have additional requirements regarding collection efforts after the final demand. These requirements are noted in appendix C.

241–330 days delinquent

The lender must file a default claim with the guarantor (see subsection 8.2.A.). A lender is encouraged to file a default claim on or after the 270th day of delinquency to permit the borrower the longest possible period in which to resolve the outstanding delinquency and avert default.

Loans on which claims are filed before the 300th day of delinquency generally are eligible for special allowance payment through the date of claim payment (see subsection A.2.B. for limitations). Loans on which claims are filed beyond the 300th day of delinquency are not eligible for special allowance payment beyond the 300th day of delinquency.
[§682.302(d)(1)(iv) and (v)]

Other Requirements

No gap of 46 days or more (61 days in the case of a transfer) may occur in collection activities. See subsection 8.8.B. of this chapter for a definition of what constitutes a gap in collection activity.
[§682.411(b)(2)]

For the remainder of this chapter, all references to time periods refer to loans with a monthly repayment obligation, unless otherwise noted.

8.1.E.
Comaker and Endorser Due Diligence Schedules and Activities

Comaker Due Diligence

For a loan on which there are comakers (two borrowers who are jointly and severally liable for the loan's repayment), each due diligence activity must be performed for each borrower. For example, if the lender is required to send a letter at a certain point of delinquency, it must send the same letter to both borrowers. Failure to perform collection activities on one or both comakers is a violation of due diligence provisions and will result in interest penalties or the loss of the loan's guarantee.

Endorser Due Diligence

The following collection efforts must be performed for any endorser (sometimes referred to as cosigner) on a borrower's loan. An endorser is an individual who signs the borrower's promissory note, or completes an endorser addendum in the case of a PLUS loan, and agrees to be secondarily liable for the debt. Endorser due diligence may be performed concurrently with borrower due diligence.

A diligent effort to contact an endorser may be used to satisfy both an endorser due diligence requirement and a borrower skip tracing requirement, provided the activity is documented as both in the lender's servicing history. If the endorser is reached, the lender must discuss both the delinquency of the loan and the endorser's obligation to repay the debt and must ask about the borrower's location and telephone number.

An endorser may be released from his or her repayment obligation on a loan in any of the following cases:

- A release is provided in writing before the loan becomes delinquent, and the endorser was not obtained due to a PLUS loan borrower's adverse credit.
- The borrower dies or, on or after July 23, 1992, the student for whom a parent received a PLUS loan dies.
- The endorser dies, and the lender receives evidence of the endorser's death, such as a copy of the death certificate or other proof of the endorser's death that is acceptable under applicable state law.
- At the discretion of the guarantor.

Some guarantors have additional requirements regarding the release of endorsers. These requirements are noted in appendix C.

During the delinquency period, the lender must *(a)* make at least one diligent effort (consisting of one successful contact or two unsuccessful attempts) to contact the endorser by telephone, and *(b)* send the endorser at least two collection letters advising him or her of the loan's past due status and urging the endorser to resolve the delinquency. At least one of the letters must warn the endorser of the consequences of default, as described under the "16–180 Days Delinquent" subheading in subsection 8.1.D.
[§682.411(m)]

If a "rolling delinquency" exists on the account and the account rolls forward (becomes more past due) late in delinquency, the lender is required to complete the endorser due diligence activities. The endorser must be given notice of the severe delinquency and ample opportunity to honor the debt before the loan is paid as a default claim.
[DCL 96-L-186/96-G-287, Q&As #59 and #60]

In addition, the lender must mail the endorser a final demand letter on or after the 151st day of delinquency, as specified in subsection 8.1.L. The endorser must be permitted at least 30 days to comply with the terms of the final demand letter before a claim may be filed on the loan.
[§682.411(m)(2)]

If all required collection activities have not been performed for the endorser, the claim file will be returned to the lender, and the lender will be required to perform any missed activities before the claim will be purchased. There will be no extension of claim filing time frames to accommodate the performance of these activities. However, if the required activity is made up and the claim is resubmitted in a timely manner, no violation will be assessed.
[§682.406(a)(3); §682.411(m); December 18, 1992, *Federal Register* comments on §682.411]

8.1.F.
Written Notices and Collection Letters

All written notices and collection letters sent to a borrower should include the lender's or servicer's address and telephone number. The notices and letters should instruct the borrower to contact the lender or servicer to resolve the delinquent status of his or her loan. When sending collection letters, the lender must use language consistent with the guidelines provided in federal regulations (see subsection 8.1.D.).
[§682.411(d)(2)]

8.1.G.
Diligent Efforts to Contact Borrower by Telephone

When required to make diligent efforts to contact the borrower by telephone, the lender must do so periodically through the date of default.

Federal regulations define a diligent effort as any one of the following:

- One successful telephone contact with the borrower.

- At least two unsuccessful attempts to contact the borrower by telephone at a number that the lender reasonably believes to be the borrower's valid telephone number.

- An unsuccessful effort to obtain the valid telephone number for a borrower—including, but not limited to, a directory assistance inquiry as to the borrower's telephone number—and a diligent effort to contact each comaker, endorser, reference, relative, individual, or entity identified on the borrower's most recent application and promissory note for a loan held by the lender. For more information on skip tracing to obtain a valid telephone number, see subsection 8.1.H.
[§682.411(l)]

If a borrower calls or meets with the lender and the delinquency is discussed, the requirement to contact the borrower is satisfied. The contact must be noted in the borrower's file or the servicing history of the loan.

A lender must act on any information it receives. If, while attempting to reach the borrower, the lender is advised that the borrower can be reached at another telephone number or at another time of day, the lender must make an additional attempt to call the borrower at that number or at that time of day.

A lender is not required to make diligent efforts to contact a borrower by telephone in the following cases:

- The borrower resides outside a state, Mexico, or Canada.

- The borrower is incarcerated.

- The borrower's telephone number is invalid, and all required skip tracing activities have been performed.

- The lender is advised that the borrower has no telephone number or that there is no telephone service in the general geographic area in which the borrower lives, and the lender verifies and documents this in the borrower's file or the servicing history of the loan.

In the last two of the preceding cases, the lender may—but is not required to—send one letter in place of each of the otherwise required efforts to contact the borrower by telephone. However, in the case of a borrower who is incarcerated or who resides outside a state, Mexico, or Canada, a lender that chooses not to contact the borrower by telephone must substitute a forceful collection letter for each of the four diligent efforts to contact the borrower by telephone. This would result in a total of eight letters, in addition to the final demand letter, between the 16–180 days of delinquency (four letters in the delinquency series and four replacing the telephone efforts).
[§682.411(a) and (d)(4); DCL 96-L-186/96-G-287, Q&A #45]

8.1.H.
Telephone Skip Tracing Requirements

If a lender discovers that it does not have a valid telephone number for a delinquent borrower, the lender must attempt to obtain the borrower's number using all available resources, including the following:

- Inquiring of directory assistance or a comparable service to obtain the borrower's number.
- Sending a letter or making a diligent effort (one contact or two unsuccessful attempts) to contact by telephone each comaker, endorser, reference, relative, individual, or entity identified on the most recent loan application and promissory note held by the lender for that borrower.
- Contacting the financial aid administrator or other school official who may reasonably be expected to know the borrower's address.
  [§682.411(l)(1)(iii)]

If any address skip tracing activities have been performed when the lender becomes aware of an invalid telephone number for the borrower, the lender need not repeat these activities when performing remaining telephone skip tracing. These activities will be considered to have been already completed for telephone skip tracing.

A lender is required to perform telephone skip tracing activities only when the borrower is delinquent for a regularly scheduled payment and the lender becomes aware—even on the last required attempt to make a "diligent effort" to contact the borrower (see subsection 8.1.D.)—that the telephone number on file is invalid.
If all four required diligent efforts to contact the borrower by telephone have been completed and the lender subsequently becomes aware that it does not have a valid telephone number for the borrower, the lender is not required to perform telephone skip tracing activities. A lender is encouraged to perform skip tracing activities at any time a telephone number is found to be invalid. If the lender performs a thorough skip tracing effort before the borrower's account becomes delinquent, it is not required to repeat those activities as a part of due diligence unless a valid telephone number is confirmed and then becomes invalid again.
[DCL 96-L-186/96-G-287, Q&A #61]

If the lender chooses to perform skip tracing during a period of grace, deferment, forbearance, or current repayment, no violations or gaps will be monitored. However, if some—but not all—required skip tracing activities are completed during such periods, remaining skip tracing must be performed if the account becomes delinquent. The next skip tracing activity must occur within 45 days of the borrower's first day of delinquency, and the remaining skip tracing must be completed with no gap greater than 45 days between activities and/or default.

The lender may attempt to contact each reference by letter or telephone. If the telephone number listed for a reference is invalid, the lender must attempt to obtain a valid telephone number for the reference. The lender may satisfy this requirement by calling directory assistance. If a telephone number is obtained from directory assistance, the lender must attempt to call the reference.

If the lender learns that a reference on the borrower's most recent loan application does not know the borrower's current whereabouts and does not anticipate contact with the borrower in the future, or is not acquainted with the borrower, the lender must note this information in the loan's servicing history. The lender is not required to contact that reference again in the course of subsequent skip tracing efforts unless the lender has reason to believe that the earlier response was erroneous or that the reference now has valid or complete borrower information. If a lender determines that a reference should no longer be contacted, but the lender is required to perform telephone skip tracing activities on the same borrower at a later date, the lender is strongly encouraged to contact a reference from another loan application in the borrower's file, if one is available.

If the lender has fulfilled the requirements described in the preceding paragraphs but has not succeeded in obtaining the borrower's telephone number, the lender is not required to continue attempts to call the borrower—unless updated telephone information is received before the 120th day of delinquency.
[§682.411(1)(2)]

If the lender obtains a valid telephone number for a borrower, it must resume the diligent efforts to contact the borrower by telephone that are applicable to the level of delinquency of the loan at the time the lender is notified of the borrower's valid telephone number (see subsection 8.1.D.).

During the period the lender is attempting to obtain a valid telephone number for the borrower, the lender must send all required collection letters. The lender may cease sending such letters only if it determines that the borrower's address is invalid, in which case the lender must perform address skip tracing (see subsection 8.1.I.).

A preclaim assistance request must be generated at the appropriate delinquency level, as determined by the guarantor for the loan (see subsection 8.1.J.).

Endorser Telephone Skip Tracing Requirements

If a lender determines that it does not know the current telephone number for a delinquent endorser, the lender must diligently attempt to locate the endorser through the use of normal commercial skip tracing techniques. This effort must include an inquiry to directory assistance or a comparable service. If the lender determines that the endorser's telephone number is incorrect after it sends the final demand letter, skip tracing activities are not required.

8.1.I. Address Skip Tracing Requirements

If a lender determines that it does not know the current address for a borrower whose loan is delinquent (for example, as a result of a telephone conversation with a reference or receipt of returned mail) the lender must, within 10 days of making the determination, begin attempting to locate the borrower using normal commercial skip tracing techniques. These skip tracing requirements must be satisfied each time the borrower is considered a "skip." Therefore, if a borrower moves after he or she is located by the lender, and the lender is unable to locate the borrower again, the lender must repeat its skip tracing activities. All attempts to locate the borrower must be documented in the borrower's file or in the servicing history of the loan. In addition, if any telephone skip tracing activities have been performed when the lender becomes aware of an invalid address for the borrower, the lender must initiate additional address skip tracing activities within 10 days of making the determination that it does not have a valid address for the borrower, but need not repeat any activities already completed when performing remaining address skip tracing activities.
[§682.411(g)]

During the performance of address skip tracing activities, the lender must continue to make diligent efforts to contact the borrower by telephone. The lender may cease making such calls only if it determines that the borrower's telephone number is invalid, in which case the lender must also perform telephone skip tracing (see subsection 8.1.H.).

The lender is not required to perform skip tracing activities if either of the following criteria apply:

- The lender determines that the address is invalid after it has mailed a timely final demand letter.
- The borrower's loan becomes 151 days or more delinquent (211 days or more delinquent for loans payable in installments less frequently than monthly) as a result of the reversal of a payment, provided a timely final demand letter has previously been mailed.

In the case of a loan transfer that occurred within 10 days of the date the lender learned that it did not know the location of the borrower, the new lender will have an additional 15 days added to this 10-day time frame to initiate skip tracing activity for a borrower whose loan is delinquent.
[DCL 96-L-186/96-G-287, Q&A #49]

If a borrower's loan is not delinquent or has not yet been converted to repayment, the lender is encouraged to initiate skip tracing activities rather than delaying them until the loan becomes delinquent. Some guarantors provide skip tracing assistance for loans that are not delinquent (see subsection 8.1.J.). If the lender completes a thorough skip tracing effort before a borrower becomes delinquent, it is not required to perform skip tracing again unless a good address is received and the borrower becomes a "skip" before the final demand letter is mailed.
[§682.208(g)]

If the lender chooses to perform skip tracing during a period of grace, deferment, forbearance, or current repayment, no violations or gaps will be monitored. However, if some—but not all—required skip tracing activities are completed during such periods, remaining skip tracing must be performed. The next skip tracing activity must occur within 45 days of the borrower's first day of delinquency, and the remaining skip tracing must be completed with no gap greater than 45 days between activities and/or default.

If the lender learns that a reference on a loan application in the borrower's file does not know the borrower's current whereabouts and does not anticipate contact with the borrower in the future, or is not acquainted with the borrower, the lender must note this information in the loan's servicing history. The lender is not required to contact that reference again in the course of subsequent skip tracing efforts, unless the lender has reason to believe that the earlier response was erroneous or that the reference now has valid or complete borrower information.

A lender's address skip tracing efforts must include, but are not limited to, sending a letter to or making a diligent effort (consisting of one successful contact or two unsuccessful attempts) to contact by telephone each comaker, endorser, relative, reference, individual, and entity (any prior holders of the loan, the school's alumni or financial aid office, etc.) identified in the borrower's file and other normal commercial skip tracing activities that the lender would conduct in pursuit of information on any other loan in its consumer loan portfolio. Lenders must perform at least two additional normal commercial skip tracing activities but are encouraged to pursue all available sources of information to obtain a valid address. All skip tracing activities must be completed by the date of default, with no gaps of more than 45 days between activities.
[§682.411(g)]

A lender is not considered to be exercising reasonable care and due diligence if it mails a series of letters or notices to the address at which it has determined that the borrower no longer resides.

Although sending a collection letter to the borrower in care of the references—or to the borrower at the reference's address—may be an effective due diligence technique, such an action does not meet the Department's definition of a skip tracing activity. A letter sent to the borrower in care of the reference—or to another person such as a comaker or endorser—may not be substituted for a required attempt to directly contact the borrower by telephone or to satisfy a requirement to send a letter to the borrower.

If a lender obtains a valid address for a borrower on or before the 150th day of delinquency (the 210th day for loans payable in installments that are less frequent than monthly), it must resume the appropriate due diligence activities (see subsection 8.1.D.). If, after determining the borrower's valid address, the lender still does not have a valid telephone number for the borrower, telephone skip tracing should be performed (see subsection 8.1.H.).
[§682.411(f); §682.411(g)(3)]

Endorser Address Skip Tracing Requirements

If a lender determines that it does not know the current address for a delinquent endorser, the lender must diligently attempt to locate the endorser through the use of normal commercial skip tracing techniques. This effort must include an inquiry to directory assistance or a comparable service. If the lender determines that the endorser's address is invalid after it mails the final demand letter, skip tracing activities are not required.
[§682.411(m)(3)]

The lender is strongly encouraged to initiate skip tracing activities on the endorser, even if he or she is not delinquent, if the endorser's address becomes invalid during the forbearance period.
[DCL 96-L-186/96-G-287, Q&As #59 and #60]

8.1.J.
Preclaim Assistance

Preclaim assistance enables a guarantor to supplement a lender's efforts to prevent default on a borrower's loan. Preclaim assistance in no way replaces the lender's responsibilities to perform due diligence. If the lender fails to continue required due diligence while the guarantor is providing assistance, interest penalties or a loss of guarantee on the loan may result.

Preclaim assistance is collection assistance provided to a lender by a guarantor. It involves the initiation by the guarantor of at least three collection activities, including at least one letter to the borrower, that are designed to encourage the borrower to begin or resume repayment.
[§682.404(a)(2)(ii)]

A lender must submit a complete and accurate request for preclaim assistance within a period that begins 10 days before and ends 10 days after the date established by the guarantor of the delinquent loan. This time frame is referred to as the preclaim request period. In absence of evidence to the contrary, the guarantor will monitor timely preclaim submission based on the lender's collection history. The lender must request preclaim assistance through the Preclaim Request Form (see section 8.11 and appendix F). In the case of a delinquent borrower whose address is invalid, the lender's request for preclaim assistance should also indicate that the borrower is a "skip."
[§682.411(h)]

If a request for preclaim assistance is submitted after the 5th day following the preclaim request period, the request will be accepted and assistance will begin, but a due diligence violation of more than 5 days will have occurred. If a delinquency is accelerated based on a payment being returned due to nonsufficient funds, a penalty may not be assessed. If the lender fails to file a request by the 240th day, it will not be entitled to receive interest, interest benefits, and special allowance for the 180 days immediately preceding the date on which the loan defaulted.
[§682, Appendix D]

If the lender has received a Notice of the First Meeting of Creditors (the Notice) or other confirmation from the bankruptcy court (directly either from the court or from another source) that a borrower has filed for relief under any chapter of the bankruptcy code, the lender must cease collection activities and may not submit a preclaim assistance request to the guarantor. Further, if the lender has already requested preclaim assistance and receives notice of any bankruptcy action, the lender must immediately, within 5 business days of the lender's receipt of the Notice, notify the guarantor to cancel preclaim activities based on a bankruptcy action filed on the borrower's loans. If the lender requests preclaim assistance on a loan on which it has received notice of a bankruptcy action or if the lender fails to timely notify the guarantor, within 5 business days, to cease collection activity on a loan on which preclaim assistance was previously requested, the result will be permanent cancellation of the guarantee on the loan at issue based solely on whether the lender's failure to comply with these provisions results in the court's determining the loan to be unenforceable. Further, the lender will be required to reimburse the guarantor for costs associated with defending itself against contempt of court charges on the account if those charges are based solely on the lender's failure to comply with these provisions and can be demonstrated accordingly.

In the event the lender receives notice that the bankruptcy action has ended and the loan remains enforceable—and the loan was deemed nondischargeable, the bankruptcy case was dismissed, or the discharge was reversed—the lender must treat the loan as though it were in forbearance. Any accrued interest should be capitalized from the date of the bankruptcy petition to the date the lender received notification that the bankruptcy action was concluded. The lender may also include in the administrative forbearance any period before the date of the bankruptcy petition for which the borrower was delinquent, as outlined in subsection 8.2.D., and bring the loan current. If, however, the lender permits a period of delinquency to remain on the loan, and that delinquency is beyond the period when a request for preclaim assistance would have been generated, the lender must request preclaim assistance from the guarantor not later than 10 days from the date on which the lender receives notice that the stay on collection activities has been lifted. If the loan was purchased as a claim by the guarantor and subsequently repurchased and brought current by the lender, the request for preclaim assistance must be made within the appropriate time frame, as outlined in this subsection.

A guarantor's preclaim assistance ends when the delinquency on the loan has been satisfactorily resolved. The lender must notify the guarantor as soon as the delinquency on the loan is reduced below the preclaim cancellation date—preferably through the regular submission of the appropriate guarantor's reports.

A new request for preclaim assistance must be submitted if a previously submitted request has been satisfactorily resolved and the delinquency of the loan again reaches the point at which the lender must request assistance. If, after the lender has submitted a request to the guarantor, the borrower makes payments—but the payments are not sufficient to bring his or her loan(s) to less than the preclaim cancellation date—it is not necessary to submit a new request. However, the lender may be required to keep the guarantor informed of any changes in the delinquency status of the loan—even if the delinquency is not reduced below the point at which the guarantor requires preclaim assistance to be canceled. In addition, the lender must report the effective date of the change that reduced the borrower's delinquency in a form acceptable to the guarantor.

The table on the following page lists the time frames applicable to several aspects of preclaim assistance.

Some guarantors have additional requirements regarding the filing, timing, and suspending of requests for preclaim assistance. These requirements are noted in appendix C.

8.1.K.
Supplemental Preclaim Assistance

Supplemental preclaim assistance is collection assistance provided to the lender by the guarantor and involves the initiation by the guarantor of at least two collection activities designed to encourage the borrower to begin or resume payment. The guarantor will initiate supplemental preclaim assistance on or after the 120th day of delinquency.
[§682.404(a)(2)(iii)]

PRECLAIM ASSISTANCE TIME FRAMES

Guarantor	Preclaim Request Period[1]	Preclaim Cancellation Date[2]	Skip Preclaim Assistance Available[3]	Deadline for Refiling Rejected Preclaim[4]	Updated Preclaim Delinquency Date[5]
American Student Assistance	80–100	60	80–100	10	None
California Student Aid Commission/EdFund	60–80	0	60–80	45	None
Colorado Student Loan Program	60–80	0	None	30	Any Change
Connecticut Student Loan Foundation	65–85	30	All	None	Any Change
Education Assistance Corporation	60–80	0	60–80	None	Any Change
Educational Credit Management Corporation	60–80	0	All	15	Any Change
Finance Authority of Maine	60–80	0	60–80	30	Any Change
Florida Department of Education	60–80	0	All	30	Any Change
Georgia Higher Education Assistance Corporation	60–80	0	After 60	30	Any Change
Great Lakes Higher Education Guaranty Corporation	60–80	0	60–80	30	Any Change
Illinois Student Assistance Commission	80–100	30	All	30	None
Iowa College Student Aid Commission	60–80	0	All	None	Any Change
Kentucky Higher Education Assistance Authority	60–80	30	All	30	None
Louisiana Student Financial Assistance Commission	60–80	0	Anytime	15	Any Change
Michigan Higher Education Assistance Authority	60–80	0	All	None	Any Change
Missouri Student Loan Program	60–80	0	60–80	30	Any Change
Montana Guaranteed Student Loan Program	65–85	0	All	None	Any Change
NSLP, Inc.	60–80	0	60–80	30	Any Change
New Hampshire Higher Education Assistance	60–80	60	None	None	Any Change
New Jersey Higher Education Student Assistance Authority	50–70	0	All	10	Any Change
New Mexico Student Loan Guarantee Corporation	60–80	0	All	30	Any Change
North Carolina State Education Assistance Authority	50–70	60	All	None	Any Change
Northwest Education Loan Association	60–80	0	All	None	None
NYS Higher Education Services Corporation	60–80	61	All	30	Any Change
Oklahoma State Regents for Higher Education	60–80	0	All	30	Any Change
Oregon State Scholarship Commission	60–80	1	60–80	30	Any Change
Pennsylvania Higher Education Assistance Agency	80–100	80	All	N/A	Any Change
Rhode Island Higher Education Assistance Authority	60–80	0	None	30	Any Change
South Carolina Student Loan Corporation	50–70	0	All	None	Any Change
Student Loan Guarantee Foundation of Arkansas	60–80	0	All	30	Any Change
Student Loans of North Dakota	70–90	30	All	10	Any Change
Tennessee Student Assistance Corporation	60–80	0	60–80	45	Any Change
Texas Guaranteed Student Loan Corporation	80–100	80	All	None	Any Change
United Student Aid Funds, Inc.	60–80	0	60–80	30	Any Change
Utah Higher Education Assistance Authority	60–80	0	Any	None	Any Change
Vermont Student Assistance Corporation	50–70	60	None	None	None

[1] The period of time (expressed in number of days delinquent) established by a guarantor for a lender to request preclaim assistance. If preclaim assistance is not requested during this time period, the loan may be subject to an interest penalty if a claim is later filed and paid.

[2] If the delinquency date falls below this number of days delinquent, the lender must notify the guarantor to cancel the request for preclaim assistance.

[3] The period of time (expressed in number of days delinquent) established by a guarantor in which a lender may request skip tracing from the guarantor. An entry of “All” or “Any” specifies that skip preclaim assistance is available throughout the life of a loan. An entry of “None” specifies that the guarantor does not offer skip preclaim assistance.

[4] The deadline (expressed in number of calendar days from the date the lender receives the rejected preclaim assistance) established by a guarantor for the lender to refile the request for preclaim assistance that has been rejected by the guarantor. An entry of “None” specifies that the guarantor has no time constraints for refiling the request by the lender.

[5] Indicates whether or not the guarantor must be informed of any changes in the delinquency status of the loan, even if the delinquency is not reduced below the point at which the guarantor requires preclaim assistance to be canceled. An entry of “None” specifies that the guarantor does not require an update on the preclaim delinquency date.

8.1.L.
Final Demand Letter

A final demand letter must be mailed to a delinquent borrower and any endorser in accordance with the requirements outlined in subsection 8.1.D. The final demand letter must require repayment of the loan in full and must warn that a default (due to failure to respond to the demand) will be reported to a national credit bureau. The lender must allow the borrower and/or endorser at least 30 days after the date the letter is mailed to respond to the letter before filing a default claim on the loan.
[§682.411(e)]

If it is determined that a borrower was ineligible for his or her loan, separate requirements for the final demand letter apply (see the following subsection 8.1.M.).

8.1.M.
Ineligible Borrower Due Diligence

If a borrower was responsible for his or her ineligibility for all or a portion of a loan, the due diligence requirements outlined in this subsection apply. However, if it is determined that a borrower is ineligible for a loan due to a school's or lender's error, the borrower should not be penalized, nor should the lender file a claim on the loan. For information on determining which party is responsible for a borrower's ineligibility, see section 7.12.

The lender must—within 60 days of determining that a borrower is ineligible for a loan due to his or her own error—mail a final demand letter to the borrower. This letter must require the borrower to repay:

- The full principal amount of the ineligible portion of the loan.
- All outstanding accrued interest on the ineligible portion of the loan.
- Any interest benefits paid on the ineligible portion of the loan.
- Any special allowance originally billed by the lender or paid by the Department on the ineligible portion of the loan.

Some guarantors have more specific requirements regarding when a final demand letter must be mailed. These requirements are noted in appendix C.

The lender must refund to the Department interest benefits on the ineligible portion of the loan, regardless of whether they were repaid by the borrower. If the borrower repays the amount of special allowance on the ineligible portion, the lender must forward the funds to the Department.
[§682.412]

An ineligible borrower must be allowed at least 30 days after the date the final demand letter is mailed to respond. If, at the end of the 30-day time frame, the borrower fails to comply with the terms of the final demand letter, the lender must:

- Treat the loan as though it were in default. The entire loan is considered defaulted—even if the borrower was ineligible for only a portion of it.
- Cancel any pending disbursement(s).
- Refund all interest benefits paid on the ineligible portion of the loan.
- File an ineligible borrower default claim for the entire loan amount after the 30th and before the 120th day from the date the final demand letter is mailed (see subsection 8.2.F.).
  [§682.412(e)]

If the borrower responds to the final demand letter by repaying less than the entire amount demanded, the lender must treat such a payment as a prepayment against the loan. The lender must file an ineligible borrower default claim for the remaining balance on the loan.

If the borrower repays the full amount demanded, the lender must refund to the Department, on its next quarterly ED Form 799, all interest benefits and special allowance payments paid by the Department on the ineligible portion of the loan. The lender must resume servicing any eligible portion of the loan.
[§682.412(d)]

8.2 Claim Types

To be reimbursed for loss on a loan due to the borrower's default, death, disability, bankruptcy filing, ineligibility for the loan, or situations involving school closure or false certification, the lender must submit a claim according to the procedures and deadlines outlined in the following subsections. Additional claim filing requirements are outlined in section 8.3.
[§682.402]

If a PLUS loan was obtained by two parents as comakers or a Consolidation loan was obtained by a married couple and one of the borrowers is eligible for discharge, the other borrower remains obligated to repay the loan. However, if each comaker on a loan meets the eligibility criteria for a discharge—under the same type or a different discharge type—discharge can be granted on the loan.

8.2.A. Default Claims

A lender is strongly encouraged to file a default claim after the 210th day of delinquency for a loan with monthly installments. A default claim may not be filed before the 180th day or after the 270th day of delinquency for loans with installments due monthly.

For a loan with installments due less frequently than monthly (e.g., quarterly), a lender is strongly encouraged to file a default claim after the 270th day of delinquency. A default claim may not be filed before the 240th day or after the 330th day of delinquency for loans with installments due less frequently than monthly.

Payments after Default

If the lender receives a payment from or on behalf of the borrower before the date it files a default claim, the payment must be accepted and applied to the loan to reduce the delinquency or eliminate the default.

If the lender receives a payment after a default claim has been filed but before the claim has been purchased, the lender must determine whether the claim should be recalled (see section 8.5). If the claim is not recalled, the payment should be held until the claim payment is received and then forwarded to the guarantor within 30 days of receiving the claim payment.

Some guarantors require a lender to apply a payment upon receipt in the preceding circumstances. These requirements are noted in appendix C.

A payment received after a default claim has been purchased must be forwarded to the guarantor for processing within 30 days of receipt. The payment should be clearly marked as a borrower payment(s) received before claim payment.

Interest-Only Claims

Because guarantors permit a lender to accrue or capitalize outstanding interest on FFELP loans whenever the borrower fails to fulfill his or her agreement to make interest-only payments during a period of deferment or forbearance, a lender may not file a claim solely on the basis of the missed interest-only payments. A default claim based solely on delinquent interest-only payments may be filed only when those payments are the result of income-sensitive repayment schedules.
[§682.202(b); DCL 90-G-175]

Forwarding Documentation of Other Claim Types

To ensure that another claim type is not inadvertently purchased as a default claim, the lender must forward to the guarantor—within 30 days of receipt—any acceptable notification (including all supporting documentation) that demonstrates that any of the following situations have occurred:

- The borrower died or the student for whom a PLUS loan was obtained died.
- The borrower became totally and permanently disabled.
- The borrower filed any type of bankruptcy.
- The borrower should have been declared ineligible for the loan.
- The borrower was entitled to loan forgiveness due to the school closing or false certification.

The guarantor may alter the original claim type to reflect the new status, if applicable.

If a lender receives information indicating that a borrower has filed a bankruptcy petition on the loan, the lender should follow the additional instructions outlined in subsection 8.2.D.

Timely Filing Deadline for Default Claims

The last day a lender may file a default claim and remain within the timely filing guidelines for a loan with monthly installments is the 270th day of delinquency. For a delinquent account scheduled for repayment in installments less frequent than monthly (e.g., quarterly), the lender must file the default claim by the 330th day of delinquency. Failure to submit a default claim by the 270th day, or 330th day if applicable, will result in a timely filing violation and the cancellation of the guarantee on the loan.
[§682.406(a)(5)]

A lender may attempt to cure a timely filing violation; if successful, the lender is entitled to resubmit the claim (see subsection 8.8.J.). However, the claim will be subject to an interest penalty, and the lender will be required to repay all interest benefits and special allowance payments for amounts received or otherwise payable after the 240th day of delinquency.

8.2.B. Death Claims

If a borrower dies, his or her loan is discharged. In the case of a PLUS loan, if the dependent student for whom a parent obtained a PLUS loan dies on or after July 23, 1992, the borrower's loan is discharged. Any endorser is released from his or her repayment obligation upon discharge of the borrower's loan.
[§682.402(b)]

If a loan is made to two borrowers as comakers, the loan is dischargeable as a death claim only if both borrowers have died or if one borrower has died and the other borrower has had his or her obligation to repay the loan discharged on another basis (such as bankruptcy or total and permanent disability). If only one comaker has his or her obligation discharged, the other comaker is obligated for repayment of the remaining loan balance.

If there have been servicing errors on a loan such that the loan has lost its guarantee, those violations must have been cured before the date the lender determines that the borrower or dependent student died. If the violations were not cured before the date of the death, the lender must discharge the loan—even though the balance will not be reimbursed by the guarantor.
[§682, Appendix D]

Suspending Collection

If a lender receives what it believes to be reliable but unofficial notification of a borrower's or student's death, the lender must suspend any due diligence activities on the loan for up to 60 days and diligently attempt to obtain a copy of the death certificate or other proof of death acceptable under applicable state law. If documentation is not received by the 60th day, the lender should treat the loan as if a forbearance had been granted during this 60-day period. A signed forbearance agreement is not required after this period. The delinquency status, if any, that existed on the loan before the lender suspended its due diligence remains. The lender must resume due diligence immediately at the level of delinquency at which it was suspended.
[§682.402(b)(3)]

After receiving a borrower's or student's death certificate or other proof of death acceptable under applicable state law, the lender may not attempt to collect on the loan from the borrower, the borrower's estate, or any endorser.

Treatment of Payments

Payments received from the borrower or the borrower's estate or paid on behalf of the borrower after the date of the borrower's or student's death must be returned to the sender. If payments are received and the lender has no indication of an address or party to which payments may be returned, the lender may apply those payments to the loan, but must document the special circumstances. The lender may capitalize the outstanding accrued interest for the period represented by payments that were made but subsequently returned.
[§682.402(b)]

Timely Filing Deadline for Death Claims

A lender must file a death claim within 60 days of receiving a death certificate or other proof of death acceptable under applicable state law.

If a death claim is not filed by the 60th day, the guarantor will still purchase the claim—unless the lender incurred due diligence or timely filing violations that were not cured before notification of the borrower's death and the violations were based on an earlier delinquency and resulted in cancellation of the guarantee on the loan. However, a

death claim purchased after the 60th day will be subject to an interest penalty, and the lender will be required to repay all interest benefits and special allowance payments for amounts received or otherwise payable after the expiration of the 60-day filing deadline.
[§682.402(g)(2)(i)]

8.2.C. Total and Permanent Disability Claims

If a borrower claims to be totally and permanently disabled, the lender must request that the borrower (or the borrower's representative if the borrower is unable to do so) provide certification of the disability from a physician. The borrower or the borrower's representative must have a completed Physician's Certification of Borrower's Total and Permanent Disability or other form approved by the Department. The certification must include the date the borrower became unable to work or attend school. The lender must continue collection activity until the certification is received—or until a letter from the physician is received requesting additional time to determine whether the borrower is totally and permanently disabled.
[§682.402(c)(2)]

Suspending Collection

If the lender receives a letter from the borrower's physician requesting additional time to make a determination, the lender must suspend collection activity on the loan for up to 60 days or until the certification is received, whichever is earlier. If the certification is not received by the end of the 60-day period, the lender should treat the loan as though forbearance had been granted during this period. A signed forbearance agreement is not required for this administrative forbearance period. The delinquency status, if any, that existed on the loan before the lender suspended its due diligence remains. The lender must resume due diligence immediately at the level of delinquency at which it was suspended. For more information on the use of administrative forbearance in conjunction with the lender's receipt of a physician's request for additional time, see subsection 7.11.B.
[§682.402(c)(4)]

Treatment of Payments

After a lender receives a disability claim payment from the guarantor, the lender must return to the sender any payments received from or on behalf of a borrower after the date the borrower became totally and permanently disabled, as certified by a physician.

When submitting a request for claim payment due to total and permanent disability, the lender must calculate the principal balance as of the date the borrower became totally and permanently disabled, as certified by a physician, by adding back to principal the amount applied to principal from payments received on or after that date. The lender must increase the principal amount of the claim based on that calculation. The lender may request interest for the period represented by payments that will be subsequently returned to the sender upon receipt of the claim payment. This interest should *not* be capitalized, but treated as accrued interest by adjusting the interest-paid-through date to reflect removal of the payments that will be returned to the sender. Lenders are not required to adjust interest that has been capitalized.

Within 30 days of the lender's receipt of the disability claim payment from the guarantor, the lender must return the payments to the sender and notify the borrower that there is no obligation to repay the loan(s) discharged on the basis of disability. If the identity of the sender is unknown (for example, a cash payment was received), the lender must return payments to the borrower. The lender should document the return of payments in the borrower's file. The lender is strongly encouraged to notify the borrower that the loan has been discharged, even if no payments were made after the date the borrower became totally and permanently disabled.
[§682.402(c)(3)]

Discharging the Loan

If a doctor of medicine or osteopathy certifies that the borrower is totally and permanently disabled, the borrower's obligation to repay the loan is canceled. For these purposes, a borrower is considered totally and permanently disabled if he or she is unable to work and earn money or attend school because of an injury or illness that is expected to continue indefinitely or result in death. A borrower is not considered totally and permanently disabled on the basis of a condition that existed before he or she applied for the loan (the date the borrower signed the application and promissory note), unless that condition has substantially deteriorated to the point of total and permanent disability since the borrower applied for the loan. In this situation, the borrower should ensure that the physician clearly notes that the condition became total and permanent after the date on which the borrower applied for the loan.

For a Consolidation loan, a borrower must be certified totally and permanently disabled according to FFELP discharge criteria for *all* underlying loans—including any non-FFELP loans. In other words, all of the underlying loans would be eligible for discharge due to total and permanent disability had these loans not been consolidated. A borrower is considered totally and permanently disabled based on a condition that existed at the time the borrower applied for an underlying loan only if the borrower's condition substantially deteriorated to the point that the borrower was rendered totally and permanently disabled after the loan was made. If requested, a borrower seeking to discharge a Consolidation loan obligation must provide the lender with the disbursement dates of the underlying loan(s), if that information is not available in the lender's servicing records.
[§682.402(c)]

If a loan is made to two borrowers as comakers, the loan is dischargeable as a total and permanent disability claim only if both borrowers become disabled or if one borrower becomes disabled and the other has his or her obligation to repay the loan discharged on another basis (such as death or bankruptcy). If only one comaker has his or her obligation discharged, the other comaker is obligated for repayment of the remaining loan balance.

If there have been servicing errors on the loan such that the loan has lost its guarantee, and those violations were not cured before the date the lender determined that the borrower was totally and permanently disabled, the lender must discharge the loan—even though the balance will not be reimbursed by the guarantor.
[§682, Appendix D]

Timely Filing Deadline for Total and Permanent Disability Claims

A lender must file a disability claim within 60 days of receiving the physician's certification. If a disability claim is not filed by the 60th day, the guarantor will still purchase the claim—unless prior servicing violations were not cured appropriately. However, the claim will be subject to an interest penalty, and the lender will be required to repay all interest benefits and special allowance payments for amounts received or otherwise payable after the expiration of the 60-day deadline.
[§682.402(g)(2)(i)]

8.2.D. Bankruptcy Claims

A lender may be advised of a borrower's bankruptcy by the borrower or the borrower's attorney, but the lender must make its determination to file a claim based on the receipt of the Notice of the First Meeting of Creditors (the Notice) or other confirmation from the bankruptcy court (directly either from the court or from another source).
[§682.402(f)(3)]

If a borrower defaults on a loan and then files a bankruptcy petition, the lender must file a default claim on the loan no later than the 270th day of delinquency. The lender must clearly note its receipt of bankruptcy documentation in the claim file. Before filing the default claim, the lender—as holder of the loan—is responsible for performing any and all bankruptcy activity required by the court and responding to all bankruptcy correspondence.

If a borrower has been approved for a loan and, before the loan is fully disbursed or the final disbursement has been delivered to the borrower by the school, the lender is notified that the borrower has filed a bankruptcy action, the lender should cancel all remaining funds that have not been disbursed and request that the school immediately return any disbursements sent to the school but not yet delivered to the borrower.

If the bankruptcy action requires the lender to file a claim with the guarantor, the lender must file a bankruptcy claim within the applicable timely filing deadlines defined in this section. The lender must file the claim for the balance outstanding on the date that the lender receives the bankruptcy notice, less any funds returned by the school prior to the date on which the claim is filed. If, after claim filing, the lender receives funds returned from the school, the lender must credit those amounts to the borrower's loan and notify the guarantor of the revised claim amount.

Some guarantors have different requirements regarding the treatment of disbursements when a lender is notified of a borrower's filing for bankruptcy. These requirements are noted in appendix C.

Filing a Proof of Claim

A lender must file a proof of claim with the bankruptcy court no later than 30 days after it receives the Notice—unless the Notice specifically states that a proof of claim is not required. If required, the proof of claim must be filed, even if a default claim has already been filed on the loan and the lender has not yet received payment from the guarantor. If a proof of claim is required, the lender must immediately forward a copy of the bankruptcy notification, proof of claim, and an original assignment of the proof of claim to the guarantor.
[§682.402(f)(4)]

▲ Some guarantors may file a proof of claim on the lender's behalf. Lenders may contact individual guarantors for more information. See section 1.5 for contact information.

If a proof of claim is not required by the court, the lender should ensure that it is on the bankruptcy court's mailing list. This may be accomplished through either a telephone call or letter to the bankruptcy court. Doing so will ensure that the current holder receives all notices regarding the borrower's bankruptcy filing.

All notices received regarding the borrower's bankruptcy filing should be forwarded to the guarantor, within 30 days of receipt, if a claim is pending or has been paid.

Loans Eligible for Bankruptcy Claim Payment

A lender must file a bankruptcy claim if either of the following conditions exist:

- A borrower files a Chapter 12 or 13 bankruptcy.
- A borrower files a petition for undue hardship (or adversary complaint) under a Chapter 7 or 11 bankruptcy.
  [§682.402(f)(5)(i)(A) and(C); 971 PL 105-244]

In all cases, the guarantor will review the loan's servicing history to ensure that servicing requirements have been fulfilled before the date the lender was notified of the borrower's petition for bankruptcy.

If a loan is made to two borrowers as comakers, the loan is dischargeable as a bankruptcy claim only if both borrowers have filed bankruptcy actions under which federal educational loans are dischargeable or if one borrower has done so and the other borrower has his or her obligation to repay the loan discharged on another basis (such as death or total and permanent disability). If only one comaker has his or her obligation to repay the loan discharged, the other comaker becomes obligated for the repayment of the remaining loan balance. However, the lender must follow bankruptcy, statutory, and case law as it pertains to comaker discharge.

When preparing a claim, the lender must file a proof of claim with the bankruptcy court for all "asset" cases (as instructed on the Notice) and include a copy of the proof of claim and an original assignment of the proof of claim in the claim file.

Loans Not Eligible for Bankruptcy Claim Payment

If a loan is not eligible for claim payment, the lender must hold the loan and cease collection activities until the bankruptcy action concludes. When the action concludes and the lender is notified that the loan was deemed nondischargeable, that the bankruptcy case was dismissed, or that a discharge was reversed, the lender must treat the loan as though it were in forbearance. Any accrued interest should be capitalized from the date of the bankruptcy petition to the date the lender received notification that the bankruptcy action was concluded. The lender also may include in the administrative forbearance any period before the date of the bankruptcy petition for which the borrower was delinquent.
[§682.402(f)(5)(ii)]

The lender must return the account to repayment and schedule the next payment due date to occur within 45 days after receiving the notification that the bankruptcy action has concluded, if the account should be in repayment at that time. If the loan was in a deferred, in-school, or grace status at the time the bankruptcy notification was received, the lender should ascertain the correct status for the loan at the conclusion of the bankruptcy action and return the loan to that status.

Timely Filing Deadlines for Bankruptcy Claims

In the absence of information to the contrary (such as a date stamp on the Notice), a guarantor will assume that any notification provided by a bankruptcy court was received by the lender on the 5th day following the court issuance date marked on the Notice. A lender is strongly encouraged to date-stamp all bankruptcy notifications immediately upon receipt, to provide clear evidence of the receipt date. Other acceptable proof of receipt includes a letter from the lender certifying a specific receipt date or documentation in the borrower's file or the servicing history of the loan.
[§682.402(f)]

A bankruptcy claim and proof of claim, if applicable, must be filed with all required documents within 30 days of the lender's receipt of the bankruptcy notification. For more information on documentation to be filed with a bankruptcy claim, see subsection 8.3.B.
[§682.402(g)(2)(iv)(A)]

If a borrower files a petition for undue hardship (or adversary complaint), the lender must file a claim within 15 days of receiving proper notification. If the lender receives an extension of time from the bankruptcy court for filing a response to the undue hardship petition (adversary complaint), the claim must be filed no less than 25 days before the expiration of that extended period.
[§682.402(g)(2)(iv)(B)]

Failure to submit a dischargeable bankruptcy claim by the end of the claim filing deadline will result in permanent cancellation of the guarantee on the loan—unless the lender can demonstrate that the bankruptcy action has been concluded and that the loan was not discharged or that the bankruptcy action in which the loan was originally discharged has been reversed. If this is the case, the lender need not cure the violation but must return the loan to the appropriate status and resume servicing activities. If the loan was 180 days or more delinquent at the time the borrower filed bankruptcy, the lender may treat the loan as a default. The lender may file a default claim within 90 days of being notified of the bankruptcy action's conclusion or reversal or by the 270th day of delinquency, whichever is earlier. The claim, if purchased, will be subject to an interest penalty, and the lender will be required to repay all interest benefits and special allowance payments for amounts received or otherwise payable from the date on which the loan should have been filed as a bankruptcy claim through the date on which the lender received notice that the loan was not dischargeable or that the discharge had been reversed.

If a lender incurred due diligence violations or timely filing violations that resulted in cancellation of the guarantee, and those violations remained uncured as of the date it received notification of the bankruptcy filing, the lender may not file a bankruptcy claim. These violations cannot be cured—unless the debt is not discharged at the conclusion of the bankruptcy action, in which case the lender may attempt to cure the violations after the loan is returned to a repayment status.

8.2.E.
Dismissal or Reversal of Bankruptcy Action

After a guarantor purchases a bankruptcy claim, it may diligently contest the discharge of the loan with the bankruptcy court. Generally, a loan will be considered dischargeable only if it has been in repayment for more than 7 years or if the borrower has filed a petition for undue hardship (or adversary complaint). The guarantor must, under federal regulations, require a lender to repurchase a loan that was filed as a bankruptcy claim if the bankruptcy is subsequently dismissed by the court or if the loan is determined to be nondischargeable.
[§682.402(j)]

A lender will be notified if it is required to repurchase a loan. If a lender is required to repurchase a loan for the preceding reason, the loan should be treated as though it were in an administrative forbearance from the date the borrower filed bankruptcy to the date the repurchase occurred and the lender received the supporting documentation from the guarantor. The lender may include in the administrative forbearance any period before the date of the bankruptcy petition for which the borrower was delinquent. For more information on claim repurchase, see section 8.7.
[§682.402(j)]

8.2.F.
Ineligible Borrower Claims

A loan for which the borrower is ineligible due to the borrower's or student's error (see section 7.12) is treated as a default if the borrower fails to repay the full amount due within 30 days after the final demand letter is mailed.

A lender must file an ineligible borrower claim for the entire outstanding loan amount on or after the 30th day, and no later than the 120th day, after the date it mailed the final demand letter.

Because a loan for which a borrower is determined to be ineligible loses eligibility for interest benefits, the amount of interest refunded to the Department becomes borrower accrued interest and may be capitalized. For claim payment purposes, this interest is treated like any other delinquent interest.
[§682.412]

For information on claim documentation, see subsection 8.3.B.

In the case of a timely claim filing violation, the lender may attempt to cure the violation by performing the cure procedure for ineligible loans (see subsection 8.8.J.). However, the claimed loan will be subject to an interest penalty. The lender must repay special allowance payments received after the date of the first disbursement.

8.2.G.
Closed School Loan Discharge

The Higher Education Act provides relief for borrowers who are unable to complete their programs of study due to the closing of a school. Borrowers who meet the criteria outlined in this subsection may be eligible to have their loans discharged.

To qualify for closed school loan discharge, a borrower must submit to his or her lender or guarantor a written request and sworn statement made under penalty of perjury that declares the following:

- The borrower (or student for whom a parent obtained a PLUS loan) received, on or after January 1, 1986, the proceeds of a disbursement of a FFELP loan to attend a school that later closed.

- The borrower (or student) did not complete the program of study at the school for which the loan was obtained because the school closed while the student was enrolled or on an approved leave of absence, or the student withdrew within 90 days of the school's closing.

- The borrower (or student) did not complete—and is not currently in the process of completing—the same or a similar program of study through a teach-out at another school or a transfer of academic credits or hours earned at the closed school to another school.

- The borrower (or student) agrees to provide, upon request, other reasonably available documentation that demonstrates the borrower's eligibility for discharge.

- The borrower (or student) agrees to cooperate with the Department or its designee in any enforcement action or attempt to recover discharged loan amounts, and to transfer and relinquish to the Department any right to a refund on a discharged loan.

The statement also must indicate whether the student has made a claim with respect to the school's closing with any third party, such as the holder of a performance bond or tuition recovery program. If so, the amount of any payment received by the borrower (or student) or credited to the loan obligation must be noted.

The Department has issued the following guidelines on closed school loan discharge:

- A borrower of a FFELP loan that was partially discharged under the closed school provisions outlined in DCL 89-G-159 is eligible to have the remaining balance of his or her loan discharged without meeting the requirements listed above.

- If loan discharge is approved, all eligible loans made for the student's enrollment in the program of study being pursued when the school closed will be discharged.

- Loan discharge is not restricted to loans made for attendance at an eligible school that closed. If an ineligible school or branch certified FFELP loan applications under an eligible school identification number, and the ineligible school or branch subsequently closed, those loans also may qualify for discharge.

- A borrower is not eligible for loan discharge if the student's program of study was terminated by the school, but the school did not close at that time. An entire school or location must close for a borrower to be eligible for loan discharge.

- A legally enforceable loan that has lost reinsurance as a result of a due diligence violation is eligible for discharge and claim payment if the borrower meets all discharge requirements. In processing such claims, a guarantor will not assess interest penalties for the due diligence violations.

To assist lenders and borrowers, many guarantors use a form with self-certifying borrower statements covering the preceding eligibility criteria. Hereafter, such a form will be referred to as a request for loan discharge due to school closure (or request).

In some cases, a request will be provided by the guarantor and sent to the lender. The lender will then forward the request to the borrower according to the following procedures. In other cases, a guarantor may mail the request directly to a potentially eligible borrower and notify the lender of this action. In such cases, the guarantor also may have the borrower return the request directly to the guarantor for a determination of eligibility. The guarantor will then notify the lender of the borrower's eligibility or ineligibility for discharge of the loan(s).

Identifying Potentially Eligible Borrowers

In some cases, a borrower's potential eligibility will be identified before a school's closing has been officially confirmed by the Department. A guarantor or lender may receive information indicating that a school has closed and that a borrower or student who attended the school may be eligible for closed school discharge. If the lender is notified of such information by a guarantor or other reliable source (such as a telephone call or letter from the borrower), the lender must immediately grant the borrower an administrative forbearance on each loan obtained to attend that school while awaiting confirmation of eligibility for loan discharge. Also, if the guarantor has not already notified the lender of the school's closing, the lender must report the unconfirmed school closing to the guarantor.

If the borrower has been informed in writing of the costs associated with capitalized interest accrued during administrative forbearance periods, and the borrower does not request that the lender remove the administrative forbearance, the lender should continue to grant an administrative forbearance on the borrower's potentially eligible loans. The administrative forbearance should be continued until the lender obtains confirmation of the school's closing and the borrower's potential eligibility for loan discharge. The lender should document the borrower's file if the borrower requests that the administrative forbearance be removed. If the borrower continues to make payments during the administrative forbearance period, the lender is not required to return the borrower's payments.

A school's closing is considered to be officially confirmed as soon as it appears on a closed school list published by the Department and made available to all guarantors. A school must be included on the Department's list before a lender can file a claim on a borrower's loan based on the closing.

If a guarantor receives confirmation of a closed school from the Department, the guarantor sends to each affected lender a report listing all potentially eligible borrowers according to the guarantor's records—including any borrowers who have paid their loans in full. The guarantor also may forward forms for each identified borrower to the lender or advise the lender that the requests have been mailed directly to the borrowers (if the guarantor provides this service to its lenders). Otherwise, the lender is responsible for mailing a request to each affected borrower within 60 days of receiving the guarantor's notification, according to the procedures outlined in this subsection.

A lender also may review its records to identify other loans made to borrowers (or students) who appear to qualify for closed school loan discharge. If the lender identifies other potentially eligible borrowers, these must be included in the mailing of requests.

Consolidation Loans

According to the Department, a borrower's Consolidation loan should be credited for the amount of the closed school loan discharge that would have been applicable to the borrower's loan at the time it was consolidated. Upon identifying a potentially eligible loan, the guarantor will forward a request for loan discharge due to school closure to the last holder of the loan before consolidation—even if the loan has been reported as paid in full.

Upon receiving the information, the lender should forward the request, with all available information pertaining to borrower payments made before consolidation, to the holder of the Consolidation loan. The guarantor may notify the Consolidation loan holder of the borrower's potential eligibility for loan discharge instead of the previous holder of the underlying loan, if appropriate.

The consolidation lender, when notified of a borrower's potential eligibility for discharge of an underlying loan, must place the entire Consolidation loan in an administrative forbearance for up to 60 days and promptly forward the request to the borrower for completion.

If the holder of an underlying loan before consolidation is unable to identify the consolidation lender, the lender must forward the request to the borrower with instructions that the borrower send the completed request to the consolidation lender.

Notification to the Borrower

At the time a request for loan discharge due to school closure is mailed to a borrower, the lender must grant the borrower an administrative forbearance. On a loan that appears to be eligible for discharge, the forbearance should be applied for a period of 60 days, beginning on the date the request is sent to the borrower for completion. This forbearance is unnecessary for a borrower whose loan is in a grace, forbearance, or deferred status—unless that status is scheduled to expire before the end of the 60-day period. In these cases, the administrative forbearance must begin immediately upon the expiration of the grace, forbearance, or deferred status and end no earlier than 60 days after the date the request was sent to the borrower.

Along with the request for loan discharge due to school closure, the lender or guarantor must provide the following information to potentially eligible borrowers:

- Eligibility requirements for closed school loan discharge.
- Instructions for completing the request and returning it within 60 days.
- An explanation of the administrative forbearance applied to each of the borrower's potentially eligible loans and the effect of capitalization of interest accrued during the forbearance period.

Procedures for Discharging Loans

The following procedures apply in cases where the school has been confirmed by the Department to have closed on or after January 1, 1986, and the borrower has been sent a request for loan discharge due to school closure:

Processing the Borrower's Request

If a borrower returns to the lender a fully completed and signed request, the lender should determine whether the borrower appears to qualify for loan discharge. If the borrower appears to qualify, the lender should file a claim according to the procedures outlined in this subsection. If a borrower returns to the guarantor a fully completed and signed request, the guarantor will review the request and determine the borrower's eligibility for discharge. The guarantor will then notify the lender that either the borrower qualifies for discharge and a claim should be filed or the borrower does not qualify for discharge and collection activity should resume.

If a borrower submits an incomplete request—except in the case of a missing signature—the lender or guarantor should either promptly return the request to the borrower, with an explanation of why the form is considered incomplete, or contact the borrower by telephone or letter to obtain the missing information. If the borrower's signature is missing, the form must be returned to the borrower. The lender or guarantor must document the borrower's loan history accordingly. In either situation, the administrative forbearance period described previously in this subsection must not exceed a total of 60 days from the date the request was originally mailed to the borrower.

If a borrower fails to submit a completed request within 60 days of being notified of that option, the lender must resume collection on the loan(s). The lender is deemed to have exercised forbearance on the loan(s) from the date of suspension of collection activity. Unpaid interest that accrued during the forbearance may be capitalized. If a completed request is received from the borrower at a later date, the lender must process the request and file a claim with the guarantor if the borrower appears to qualify for loan discharge.

A lender can facilitate the timely and accurate processing of closed school claims by ensuring that a fully completed request from the borrower is submitted with each closed school claim. It is critical that each field on the request is completed by the appropriate party.

If a borrower’s address is unknown or the request is returned as undeliverable and the borrower is delinquent in making payments, the lender must attempt to locate the borrower as required in subsection 8.1.I. The lender need not duplicate its efforts if skip tracing efforts are in progress or have been exhausted. Upon receiving a valid address for the borrower, the lender must send or resend the request to the borrower.

Claim Filing and Payment

The lender must file a closed school claim within 60 days of receiving a completed request from the borrower or, if the guarantor has obtained the request directly from the borrower, within 60 days of the date of the guarantor’s notification to file a closed school claim. Failure to meet this timely filing deadline may result in an interest penalty.

The lender must forward to the guarantor within 30 days of receipt any borrower payment it receives after the claim has been filed (see subsection 8.3.F.).

Closed school claim filing documentation differs from that required for other claim types. The claim filing documentation required by the guarantor depends on the status of the loan. One of three categories may exist:

CATEGORY 1: If the closed school claim includes Stafford, PLUS, or SLS loans with outstanding balances, the lender must submit the following documentation:

- The guarantor's claim form, completed according to its instructions.

- The completed request for loan discharge due to school closure.

- The original application and promissory note, assigned to the guarantor. The lender alternatively may submit other acceptable documentation (such as a true and exact copy).

- A payment history or other summary of payments made by or on behalf of the borrower. If the lender is aware of having received payments from a third party source, it should clearly note this information and the actual amounts received. If a payment history or summary is not available, the lender should note this information in the claim file.

The claim payment amount will include remaining principal, outstanding accrued interest, and collection costs incurred by the lender and applied to the borrower’s account within 30 days of the date the costs were actually incurred. If a lender meets all timely filing and refiling requirements, interest will be paid through the claim payment date.

At the same time the claim is paid, the guarantor will refund to the borrower all payments made by or on behalf of the borrower, less any payments received from a third-party source—unless the guarantor also holds a defaulted loan for the borrower that is not eligible for discharge. If the guarantor holds such a loan, the guarantor may apply the borrower’s refund to the outstanding balance of the defaulted loan account. Any payment exceeding the remaining balance of the defaulted loan account will be forwarded to the borrower. The guarantor will notify the borrower of the application of the refund to repay the defaulted loan(s) at the time the claim is paid.

CATEGORY 2: If the closed school claim includes Stafford, PLUS, or SLS loans that have been paid in full as a result of a Consolidation loan, the consolidation lender must submit the following documentation:

- The guarantor's claim form completed according to accompanying instructions. The claim payment request must specify the amount paid to the previous holder to consolidate the loan and the interest applicable to the Consolidation loan. The consolidation lender should identify the loan type on the guarantor's claim form as the loan type of the underlying loan (not as a Consolidation loan). The lender must report an interest-paid-through date equal to the date of consolidation, unless a subsidized deferment applied to the Federal Consolidation loan requires adjustment of the interest-paid-through date to a later date.

- The completed request for loan discharge due to school closure.

- The original application and promissory note for the underlying loan(s), assigned to the guarantor. The lender alternatively may submit other acceptable documentation (such as a true and exact copy). If the original or the true and exact copy of the application and promissory note cannot be located, the guarantor and the lender must examine their records and any documentation submitted by the borrower to determine if the borrower qualifies for a discharge or refund.

- Documentation that specifically identifies each loan for which discharge is requested. This information should include loan type, disbursement date(s), the prior holder of the loan, and the amount paid to the prior holder when the loan was consolidated.

- A payment history or other summary of payments that were made to each underlying loan holder before consolidation by or on behalf of the borrower. If the lender is unable to provide a summary of borrower payments, the lender must request from the borrower proof of such payments and note this in the borrower’s file. If the lender is aware of having received payments from a third-party source, it should clearly note this information and the actual amounts received. If a payment history or summary is not available, the lender should note this information in the claim file.

If an underlying loan is determined to be eligible for discharge, the claim amount paid to the holder of the Consolidation loan will include *(a)* the amount paid by the consolidation lender to the prior holder, *(b)* interest on the amount paid to the prior holder accrued from the date of consolidation through the date of discharge, and *(c)* the amount of all payments made by or on behalf of the borrower on each of the underlying loans before consolidation—less any payments received from a third party source.

The consolidation lender must apply any claim payment amount received from the guarantor to the remaining balance of the outstanding Consolidation loan. If application of the claim payment results in the Consolidation loan being paid in full, any remaining funds must be refunded to the borrower.

CATEGORY 3: If the claim consists solely of FFELP loans paid in full by or on behalf of the borrower, the lender must submit the following documentation:

- The guarantor's claim form, completed according to accompanying instructions.

- The completed request for loan discharge due to school closure.

- The original application and promissory note, assigned to the guarantor. The lender alternatively may submit other acceptable documentation (such as a true and exact copy). If the original or the true and exact copy of the application and promissory note cannot be located, the guarantor and the lender must examine their records and any documentation submitted by the borrower to determine if the borrower qualifies for a discharge or refund.

- A payment history or other summary of payments made by or on behalf of the borrower. If the lender is unable to provide a summary of borrower payments, the lender must request from the borrower proof of such payments and note this in the borrower’s file. If the lender is aware of having received payments from a third-party source, it should clearly note this information and the actual amounts received. If a payment history or summary is not available, the lender should note this information in the claim file.

If a loan that is paid in full is determined to be eligible for discharge, the guarantor will notify the lender that the loan obligation is discharged.

The guarantor will refund to the borrower all payments made by or on behalf of the borrower, less any payments received from a third-party source—unless the guarantor also holds a defaulted loan for the borrower that is not eligible for discharge. If the guarantor holds such a loan, the guarantor may apply the borrower's refund to the outstanding balance of the defaulted loan account. Any payment exceeding the remaining balance of the defaulted loan account will be forwarded to the borrower. The guarantor will notify the borrower of the application of the refund to repay the defaulted loan(s).

Additional Considerations

Within 30 days after receiving claim payment, the lender must notify the borrower that the loan obligation has been discharged and must instruct all credit reporting agencies to which the lender previously reported information on the loan to delete all adverse credit history associated with the discharged loan.

If borrower payment records are unavailable at the time the claim is due to be filed by the lender, the lender should request loan discharge from the guarantor within the required time frame to avoid a violation. The guarantor will refund to the borrower the difference between the original loan principal and the principal balance outstanding with the lender. Any additional amounts not included in the claim payment can be paid later through a supplemental claim based on proof of borrower payments or supplemental documentation provided by the lender.

If the discharged loan is included in an active bankruptcy case, the entity on record with the bankruptcy trustee must notify the trustee that the debt has been discharged and explain the reason for the discharge.

Discharging Defaulted Loans

Default Claim Not Yet Filed

If the lender has not filed a claim on a defaulted loan when it learns of a borrower's potential eligibility for closed school discharge, the lender should grant the borrower an administrative forbearance. The lender should send a borrower it believes may be eligible for discharge a request for loan discharge due to school closure once the school has been confirmed to be closed.

If the request is not returned within 60 days, the lender must discontinue the administrative forbearance and prepare the default claim for filing. The aging of the delinquency on the account will stop due to the administrative forbearance so that the lender will be able to file a default claim if the borrower fails to return the request. In these cases, the lender should clearly indicate in the servicing history that a closed school forbearance was granted after default. This indication will assist the guarantor in appropriately handling the situation and will help prevent an inappropriate cancellation of the guarantee due to a timely filing violation. Without a clearly documented forbearance, the number of days of delinquency would appear to far exceed the permissible amount at the time the guarantor receives the claim.

Default Claim Filed, But Not Yet Paid

To provide a borrower the opportunity for loan discharge when a default claim has been filed but not yet paid, the lender must notify the guarantor of each borrower it identifies as potentially eligible for loan discharge due to his or her school's closing. To expedite this process, on the same day the lender sends the discharge request to the borrower, the lender should notify the guarantor. The lender may request that the claim file be returned. However, if no request is made, the guarantor will continue processing the default claim.

If the borrower returns a completed request form, the lender should refile the claim as a closed school claim. If no response is received from the borrower, the lender should reactivate the default claim. The following time frames apply to refiling/reactivation deadlines and begin with the earlier of the day the lender or guarantor received the completed request for discharge from the borrower or, if no response is received, 60 days after the request is sent to the borrower:

- If the claim is refiled as a closed school claim or reactivated as a default claim within 30 days, the claim will be paid including all outstanding interest.
- If the claim is refiled as a closed school claim or reactivated as a default claim on or after day 31, but no later than day 60, the claim will be paid, but interest will be limited to 180 days.
- If the claim is not refiled as a closed school claim or reactivated as a default claim within 60 days, a timely filing violation exists and the guarantee on each applicable loan is canceled. To reinstate the guarantee, the cure procedures for timely claim filing violations must be completed (see subsection 8.8.J.).

- If the guarantee on the loan has been canceled, but the lender eventually receives the completed borrower request, the guarantor will waive the timely filing violation and will pay the closed school claim. However, only the principal balance will be included in the claim payment; no interest will be paid to the lender in these situations.

If a claim has been filed due to bankruptcy, ineligible borrower, death, disability, a defaulted Consolidation loan, or false certification—or if skip tracing is exhausted for delinquent borrowers with invalid addresses—the lender must not recall the claim. Particular care should be exercised when sending the request to borrowers who have filed bankruptcy. The cover letter must clearly state that the lender is not trying to “collect” the loan.

Discharge Denials

If a guarantor determines that a loan is not dischargeable under closed school provisions, it will return the claim to the lender with an explanation of why the borrower is not eligible. Within 30 days after being notified that the discharge has been denied, the lender must notify the borrower of the reasons for denial and resume collection efforts. The lender is considered to have granted an administrative forbearance on each loan from the date collection activity was suspended until the date the lender received notification that the claim was denied. The lender may capitalize outstanding accrued interest during the forbearance period.

A borrower’s request for loan discharge may not be denied solely due to the borrower’s failure to meet the 60-day requirement for returning the completed request for loan discharge due to school closure.

Citations

Information in subsection 8.2.G. has been compiled based on guidance from the following sources:

- Higher Education Act, Subsection 437(c)
- §682.402(d), (g), (h), and (k)
- DCL 94-L-166/94-G-256, September 1994
- Dear Guaranty Agency Director Letter, September 22, 1994 (supplement to preceding DCL)
- DCL 89-G-159, May 1989

8.2.H. False Certification Loan Discharge

The Higher Education Act provides relief for borrowers who meet false certification requirements as outlined in this subsection. A borrower qualifies for loan discharge due to false certification if the borrower—or student for whom a parent obtained a PLUS loan—received, on or after January 1, 1986, the proceeds of a FFELP loan disbursement to attend a school that:

- Admitted the student on the basis of his or her ability to benefit from its training, even though the student did not meet the applicable requirements for admission on the basis of ability to benefit.

- Signed the borrower’s name on the application and/or promissory note without his or her authorization.

- Endorsed the borrower’s name on the loan check or signed the authorization for electronic funds transfer or master check without the borrower’s authorization—unless the student for whom the loan was made received the proceeds of the loan either by actual delivery of the loan funds or by a credit in the amount of the contested disbursement to charges owed to the school for the portion of the educational program completed by the student.

To qualify for loan discharge due to false certification, a borrower must submit a written request and sworn statement, made under penalty of perjury, in which the borrower:

- Agrees to provide, upon request, other reasonably available documentation that demonstrates the borrower’s eligibility for discharge.

- Agrees to cooperate with the Department (or its designee) in any enforcement action or attempt to recover discharged loan amounts, and to transfer and relinquish to the Department any right to a refund on a discharged loan.

- States whether the student has made a claim with respect to the school’s false certification with any third party, such as the holder of a performance bond or a tuition recovery program—and, if so, provides the amount of any payment received by the borrower (or student) or credited to the loan obligation.

If a borrower is considered eligible to have his or her loans discharged, all eligible loans made for the student's enrollment in the program of study that he or she was pursuing when the false certification occurred will be discharged.

In the case of a borrower requesting a discharge based on the school's improper determination of the student's ability to benefit, the borrower must make all of the following certifications with respect to the borrower or student for whom a parent received a PLUS loan:

- The student received proceeds of a loan, in whole or in part, after January 1, 1986, to attend a school.
- The student was admitted to the school on the basis of ability to benefit from its training, but did not meet the applicable requirements for admission on the basis of ability to benefit.
- The student either *(a)* withdrew from the school and did not find employment in the occupation for which the program was intended to provide training or *(b)* completed the training program for which the loan was obtained and made a reasonable attempt to obtain employment in the occupation for which the program was intended to provide training, but was unable to find employment in that occupation or obtained employment in that occupation only after receiving additional training that was not provided by the school that certified the loan.

In the case of a borrower requesting a discharge because the school signed the borrower's name on the loan application and/or promissory note without the borrower's authorization, the borrower must:

- State that the signature on either of those documents was not his or her signature.
- Provide five different specimens of his or her signature, two of which must be no earlier nor later than one year before or after the date of the contested signature.

In the case of a borrower requesting a discharge because the school, without the borrower's authorization, endorsed the borrower's name on the loan check or signed the authorization for electronic funds transfer or master check, the borrower must:

- Certify that he or she did not endorse the loan check or sign the authorization for electronic funds transfer or master check, or authorize the school to do so.
- Provide five different specimens of his or her signature, two of which must be no earlier nor later than one year before or after the date of the contested signature.
- State that the proceeds of the contested disbursement were not received either through actual delivery of the loan funds or by a credit in the amount of the contested disbursement applied to charges owed to the school for the portion of the educational program completed by the student.

To assist lenders and borrowers, many guarantors use a form with self-certifying borrower statements covering the preceding eligibility criteria. Hereafter, such a form will be referred to as a request for loan discharge due to false certification (or request).

In some cases, the guarantor will send the request forms to the lender. The lender will then forward the request to the borrower according to the following procedures. In other cases, the guarantor may mail the request directly to potentially eligible borrowers and notify the lender of this action. In such cases, the guarantor also may have the borrower return the request directly to the guarantor for a determination of eligibility. The guarantor will then notify the lender of the borrower's eligibility or ineligibility for discharge of the loan.

Identifying Potentially Eligible Borrowers

A borrower's potential eligibility may be identified by the receipt of reliable information in the form of a telephone call or written communication that may come from the borrower, lender, guarantor, Department, or another source. The lender is required to assist the guarantor and the borrower in determining whether the borrower is eligible for discharge of the loan.

As soon as a borrower is identified as potentially eligible for loan discharge based on a school's false certification, the lender must immediately suspend all collection activity and grant the borrower a 60-day administrative forbearance on all of his or her loans that are potentially eligible for discharge while awaiting a determination regarding discharge. This administrative forbearance is unnecessary for borrowers whose loans are in a grace, forbearance, or deferred status—unless the grace, forbearance, or deferred status would expire before the end of the 60-day administrative forbearance period. In these cases, the administrative forbearance must begin immediately upon the expiration of the grace, forbearance, or deferred status and end no earlier than 60 days after the date the request was sent to the borrower.

Along with the request for loan discharge due to false certification, the lender or guarantor must provide the following information to potentially eligible borrowers:

- Eligibility requirements for false certification loan discharge.
- Instructions for completing the request and submitting it within 60 days.
- An explanation of the administrative forbearance applied to each of the borrower's potentially eligible loans and the effect of capitalization of interest accrued during the forbearance period.

If the borrower's address is unknown or the request is returned as undeliverable and the borrower is delinquent in making payments, the lender must attempt to locate the borrower as required by the applicable skip tracing provisions (see subsection 8.1.I.). The lender need not duplicate its efforts if skip tracing efforts are in progress or have been exhausted. Upon receiving a valid address for the borrower, the lender must send or resend the request to the borrower.

Procedures for Discharging Loans

The following procedures apply in cases where the borrower has been determined potentially eligible for a false certification discharge and has been sent a request for loan discharge due to false certification.

Processing the Borrower's Request

If a borrower returns to the lender a fully completed and signed request (even after the 60-day time limit), the lender should file a claim according to the procedures provided in this subsection. The only exception to these procedures is for a borrower who claims that the school improperly endorsed or signed the borrower's name on a loan check, where the borrower did not receive the loan proceeds. In this situation, the lender must review all available documentation.

If a lender determines that a borrower's assertion is invalid based on persuasive evidence, the lender may interpret the borrower's objection as a statement of intent not to repay the loan and may file a default claim on that basis. However, the lender cannot report the loan as defaulted to credit bureaus until a final determination is made by the guarantor or the Department.

If a borrower returns to the guarantor a fully completed and signed request, the guarantor will review the request and determine the borrower's eligibility for false certification discharge. The guarantor will then notify the lender that either the borrower qualifies for discharge and a claim should be filed or the borrower does not qualify for discharge and collection activity should resume.

If a borrower submits an incomplete request to the lender or guarantor, the request should be promptly returned to the borrower with an explanation of why the form is incomplete, or the borrower may be contacted to obtain the missing information. The lender or guarantor must document the borrower's history accordingly. If the borrower's signature is missing, the form must be returned to the borrower. If an incomplete request is returned to the borrower, or if attempts are being made to contact the borrower to obtain missing information, the administrative forbearance period described previously in this subsection must not exceed a total of 60 days from the date on which the request was originally sent to the borrower.

If a borrower fails to submit a completed request within 60 days of being notified of that option, the lender must resume collection on the loan(s). The lender is deemed to have exercised forbearance on the loan(s) from the date of suspension of collection activity. Unpaid interest that accrued during the forbearance may be capitalized.

A lender can facilitate the timely and accurate processing of false certification claims by ensuring that a fully completed request for loan discharge due to false certification from the borrower is submitted with each claim. It is critical that each applicable field on the request is completed appropriately.

Claim Filing Procedures

The lender must file a false certification claim within 60 days of receiving a completed request from the borrower or, if the guarantor has obtained the request directly from the borrower, within 60 days from the date of the guarantor's notification to file a false certification claim. Failure to meet this timely filing deadline may result in an interest penalty.

The lender must forward any borrower payment it receives after the claim has been filed to the guarantor within 30 days of receipt (see subsection 8.3.F.).

If a false certification claim is submitted and the guarantor determines that the borrower is eligible for loan discharge, the claim will be paid within 90 days of the guarantor's receipt of the complete claim (if the lender is entitled to receive claim payment and the entire loan is discharged). The guarantor will notify the lender and borrower that the loan obligation has been discharged. The lender must notify all credit reporting agencies to which the lender previously reported information on the loan to delete all adverse credit history associated with the discharged loan.

The claim payment amount will include remaining principal, outstanding accrued interest, and collection costs incurred by the lender and applied to the borrower's account within 30 days of the date the costs were actually incurred. If a lender meets all timely filing and refiling requirements, interest will be paid through the claim payment date.

On the same date the guarantor pays the claim, it will refund to the borrower all borrower payments made on the loan, minus any funds received from a third party source.

For an eligible loan that was previously paid in full by or on behalf of the borrower, the guarantor will notify the lender that the loan obligation is discharged and will refund to the borrower all borrower payments made on the loan, minus any funds received from a third party source.

If borrower payment records are unavailable at the time the claim is filed by the lender, the guarantor will refund to the borrower the difference between the original loan principal and the principal balance outstanding with the lender. Any additional amounts not included in the claim payment can be paid later through a supplemental claim based on proof of borrower payments or supplemental documentation provided by the lender.

Claim Filing Documentation

False certification claim filing documentation differs from that required for other claim types. The claim filing documentation required by the guarantor depends on the status of the loan. One of three categories may exist:

CATEGORY 1: If the false certification claim includes Stafford, PLUS, or SLS loans with outstanding balances, the lender must submit the following documentation:

- The guarantor's claim form, completed according to the accompanying instructions.
- The completed request for loan discharge due to false certification
- Any required borrower signature specimens or disbursement checks (as applicable).
- The original application and promissory note, assigned to the guarantor. The lender alternatively may submit other acceptable documentation (such as a true and exact copy).
- Payment history. A payment history or other summary of payments made by or on behalf of the borrower is acceptable. If the lender is aware of having received payments from a third-party source, it should clearly note this information and the actual amounts received.

CATEGORY 2: If the claim includes Stafford, PLUS, or SLS loans that have been paid in full as a result of a Consolidation loan, the consolidation lender must submit the following documentation:

- The guarantor's claim form, completed according to the accompanying instructions. The claim payment request must specify the amount paid to the previous holder to consolidate the loan as well as the interest applicable to the Consolidation loan. The consolidation lender should identify the loan type on the guarantor's claim form as the loan type of the underlying loan (not as a Consolidation loan). The lender must report an interest-paid-through date equal to the date of consolidation, unless a subsidized deferment applied to the Consolidation loan requires adjustment of the interest-paid-through date to a later date.

- The completed request for loan discharge due to false certification.

- Any required borrower signature specimens or disbursement checks (as applicable).

- The original application and promissory note for the underlying loan(s), assigned to the guarantor. The lender alternatively may submit other acceptable documentation (such as a true and exact copy). If the original or the true and exact copy of the application and promissory note cannot be located, the guarantor and the lender must examine their records and any documentation submitted by the borrower to determine if the borrower qualifies for a discharge or refund.

- Documentation that specifically identifies each loan for which discharge is requested. This information should include loan type, disbursement date(s), the prior holder of the loan, and the amount paid to the prior holder when the loan was consolidated.

- A payment history or other summary of payments that were made to each underlying loan holder before consolidation by or on behalf of the borrower. If the lender is unable to provide a summary of borrower payments, the lender must request from the borrower proof of such payments and note this in the borrower’s file. If the lender is aware of having received payments from a third-party source, it should clearly note this information and the actual amounts received.

CATEGORY 3: If the claim consists solely of FFELP loans paid in full by or on behalf of the borrower, the lender must submit the following documentation:

- The guarantor's claim form, completed according to the accompanying instructions.

- The completed request for loan discharge due to false certification.

- Any required borrower signature specimens or disbursement checks (as applicable).

- The original application and promissory note, assigned to the guarantor. The lender alternatively may submit other acceptable documentation (such as a true and exact copy). If the original or the true and exact copy of the application and promissory note cannot be located, the guarantor and the lender must examine their records and any documentation submitted by the borrower to determine if the borrower qualifies for a discharge or refund.

- A payment history or other summary of payments made by or on behalf of the borrower is required. If the lender is unable to provide a summary of borrower payments, the lender must request from the borrower proof of such payments and note this in the borrower’s file. If the lender is aware of having received payments from a third-party source, it should clearly note this information and the actual amounts received.

Claim Payment: Loans Discharged Solely Due to Improper Endorsement of the Disbursement Check(s)

A claim filed by a lender based solely on the borrower’s assertion that he or she did not sign the loan check will not be paid. Instead, the guarantor will, within 30 days of approving the discharge:

- Notify the borrower that his or her liability with respect to the amount of the contested disbursement of the loan has been discharged and that the lender has been informed.

- Transfer to the lender the borrower’s written assignment of any rights the borrower may have against third parties with respect to a loan disbursement that was discharged because the borrower did not sign the loan check.

- Notify the lender that the borrower’s liability with respect to the amount of the contested disbursement of the loan has been discharged.

Upon receiving notification from the guarantor, the lender must:

- Immediately discontinue any collection efforts against the borrower with respect to the discharged loan amount and any charges imposed, or costs incurred, by the lender related to the discharged loan amount that the borrower is, or was, otherwise obligated to pay.
- Within 30 days, instruct all credit reporting agencies to which the lender previously reported information on the loan to delete all adverse credit history associated with the discharged loan.
- Within 30 days, refund to the borrower all amounts paid by the borrower with respect to the loan disbursement that was discharged, including any charges imposed or costs incurred by the lender related to the discharged loan amount.
- Within 30 days, refund to the Department all interest benefits and special allowance payments received from the Department with respect to the loan disbursement that was discharged.

Claim Payment: Loans Discharged Based on Ability to Benefit or the School's Unauthorized Signature

If a claim filed by a lender is based on the borrower's assertion that *(a)* he or she did not sign the application and/or promissory note or authorization for electronic funds transfer or master check or *(b)* the school failed to test properly the student's ability to benefit, the guarantor will pay the claim within 30 days of approving the discharge.

The claim payment amount on an outstanding loan will include the remaining principal balance, outstanding interest accrued on the loan, and eligible collection costs incurred by the lender and applied to the borrower's account within 30 days of the date those costs were actually incurred.

At the same time the claim is paid, the guarantor will refund all payments made by or on behalf of the borrower, less any payments received from a third-party source.

Discharging Loans Paid in Full by the Borrower

If a loan that is paid in full is determined to be eligible for discharge, the refund to the borrower will include all payments made by or on behalf of the borrower, less any payments received from a third party source.

Discharging Loans Paid in Full by Consolidation

If a loan that is paid in full by consolidation is determined to be eligible for discharge, the claim amount paid to the holder of the Consolidation loan will include the amount paid by the consolidation lender to the prior holder plus interest and the amount of all payments made by or on behalf of the borrower before consolidation, less any payments received from a third party source.

Any payment exceeding the remaining balance of the Consolidation loan is to be forwarded to the borrower.

Within 30 days after receiving claim payment, the lender (or prior lender in the case of a loan paid in full by the borrower or through consolidation) must notify the borrower that his or her obligation has been discharged. If the lender is notified by the guarantor that the borrower does not qualify for loan discharge, the lender must, within 30 days of receiving notification, resume collection activities and notify the borrower of the reason for denial.

Discharge Denials

If the guarantor determines that a loan is not dischargeable, the guarantor will ensure that the following actions are performed within 30 days of denial:

- The guarantor will notify the lender that the borrower does not qualify for the requested discharge.
- The guarantor will notify the borrower that he or she does not qualify for discharge and explain the reasons for that determination. A borrower's request for loan discharge will not be denied solely due to the borrower's failure to meet the 60-day requirement for returning the completed request.

In its notification, the guarantor will advise the borrower that he or she remains obligated to repay the loan and warn the borrower of the consequences of default. In addition, the guarantor will explain that the borrower will be considered to be in default on the loan—unless the borrower fulfills either of the following requirements within 30 days:

- Submits a written statement to the guarantor in which the borrower acknowledges the debt and, if payments are due, agrees to begin or resume making those payments to the lender. Within 30 days after receiving this statement, the guarantor will return the claim file to the lender and notify the lender to resume collection efforts if payments are due.

- Requests that the Department review the guarantor's decision. Within 30 days after receiving this request, the guarantor will forward the claim file and all relevant documentation to the Department for review. Approval of the discharge by the Department will result in the forgiveness of the loan through claim payment or discharge by the guarantor. Denial will result in the return of the claim to the holder for continued servicing and collection.

The guarantor will pay a default claim to the lender within 30 days after a borrower fails to return either the statement acknowledging the debt or the request for review of the guarantor's decision by the Department.

A borrower's request for loan discharge may not be denied solely due to the borrower's failure to meet the 60-day requirement for returning the completed Request.

Citations

Information in subsection 8.2.H. has been compiled based on guidance from the following sources:
- Higher Education Act, Subsection 437(c)
- §682.402 (e), (g), (h), and (k)
- DCL 94-L-166/94-G-256

8.3 Claim Filing Requirements

As outlined in section 8.2, a lender must file each claim according to the procedures and deadlines pertaining specifically to the type of claim being filed. The lender's claim files must be accurate and must include all documentation specified in subsection 8.3.B.

▲ Some guarantors offer services that enable lenders to file claims electronically. Lenders may contact individual guarantors for more information on such services. See section 1.5 for contact information.

8.3.A. Claim Review Process

After a lender submits a claim, the guarantor will determine the validity of the claim by verifying that the lender administered the loan in compliance with federal requirements and the guarantor's policies and procedures.

8.3.B. Claim File Documentation

A lender must include the documentation listed in this subsection with each claim file it submits to a guarantor. If the borrower's file contains more than one of any document, all of the originals—or copies, if the originals are not available—should be included and grouped together. The lender also should group all claim files together by claim type (default, bankruptcy, etc.).

Default, Death, Disability, and Bankruptcy Claims

Each claim file must contain the following documentation, as applicable. The documents should be arranged in the following order and according to the specified guidelines:

Some guarantors have alternative requirements regarding the order of claim file documentation. These requirements are noted in appendix C.

1. *Guarantor's Claim Form*

   If approved in advance by the guarantor, the lender may submit its own form in lieu of the guarantor's claim form.

2. *Original Application and Promissory Note*

   The lender must submit the original application and promissory note, with any signed promissory note addenda. If the guarantor retains the original promissory note on the lender's behalf, the lender is expected to submit only the imaged copy of the application and promissory note that it receives from the guarantor or a facsimile of the note.

   If the lender's original application and/or promissory note has been lost or destroyed, the lender may submit a certified true and exact copy, which must be legible and bear all assignments (see item *3* below).

   In some cases, an indemnification agreement will be accepted if a lender is unable to provide required documentation for claim filing.

   ▲ Lenders may contact individual guarantors for information on the use of indemnification agreements in situations involving certified true and exact copies of promissory notes. See section 1.5 for contact information.

   If a loan is later found to be legally unenforceable against the borrower due to loss of the note(s), the lender must refund to the Department any interest benefits and special allowance payments collected by the lender on the loan and repurchase the claim from the guarantor.

3. *Assignment of Promissory Note*

   The claim file must contain the holder's original assignment of the promissory note to the guarantor. This assignment may be stamped, typed, or written directly on the back of the note—or, if the guarantor permits, may be in the form of a letterhead assignment. For letterhead assignments (assignment on a sheet of the agency's letterhead, rather than on the note itself), the lender must ensure that the borrower name and social security number, loan amount, disbursement date(s), and loan type is provided for each note being assigned.

   If the ownership of the loan was previously assigned to the current holder from another holder, the holder must document all prior assignments, as applicable, and the lender's assignment of the note to the guarantor. Each prior assignment may be stamped, typed, or written directly on the back of the note, or may be in the form of a letterhead assignment or otherwise through an agreement with the guarantor.

4. *Evidence of Disbursement*

   The lender must provide the date and amount of each disbursement of the loan. Generally, the lender is not required to provide proof of disbursement—such as the original endorsed disbursement check, copies of both sides of the original endorsed check, or other proof acceptable in a court of law—as part of the claim file. However, the lender is required to provide proof of disbursement if such proof is requested by the guarantor or the borrower disputes the receipt of the funds.

5. *Out-of-School Date Information*

   Documentation should reflect the source and receipt date of the last date of attendance used by the lender to convert the loan to repayment. This out-of-school date information is used by the guarantor to verify the timely conversion of the loan to repayment (see section 7.3). If the out-of-school date information provided cannot be substantiated by the supporting documentation or the guarantor's records and results in an inaccurate conversion to repayment or incorrect deferment eligibility, the guarantor may return the claim to the lender, assess penalties for due diligence violations, or cancel the guarantee.

6. *Repayment Disclosure*

   Documentation of the borrower's repayment disclosure must include the repayment start date, first payment due date, the amount and number of the borrower's scheduled payments, the loan balance including capitalized interest, and the date on which the disclosure was sent. If such information is provided as part of the servicing history of the loan, a copy of the actual repayment disclosure form need not be included in the claim file.

7. *Deferment/Forbearance Documentation*

   The servicing history notation of each borrower request for deferment or forbearance, along with any deferment documentation, must indicate the beginning date, ending date, and type of deferment or forbearance.

   Some guarantors may require actual paper copies of deferment documentation. These requirements are noted in appendix C.

8. *Collection History*

   The lender must submit a complete and legible record of the collection history of the loan. Such documentation must clearly reflect due diligence, servicing, and collection activities performed, sufficient to support guarantor review. The lender should ensure that the guarantor has on file an up-to-date legend of the lender's collection and servicing codes.

9. *Complete Payment History*

   A history of payments made by or on behalf of the borrower must be provided to document the following:

   - All borrower payments, prepayments, and school refunds received—including the dates, amounts, and application (the distribution to principal, interest, and other charges) of each payment or return.

   - All interest capitalization that occurred.

   If the loan was assigned from a previous holder, the new holder must be able to provide a complete payment history or other summary of payments made by or on behalf of the borrower detailing the prior holder's receipt of payments, prepayments, and school refunds.

   The lender should ensure that the guarantor has on file an up-to-date legend of the lender's payment codes.

   If all or a portion of the payment history is missing, the lender must follow guidance in subsections 8.8.C. and 8.8.I.

Death or Disability Claims

For a death claim, the lender must submit—in addition to the preceding items *1* through *9*—evidence of the borrower's or student's death, such as the death certificate or other proof of death acceptable under applicable state law (see subsection 8.2.B.).

For a total and permanent disability claim, the lender must submit—in addition to the preceding items *1* through *9*—a completed Physician's Certification of Borrower's Total and Permanent Disability, a common Temporary or Permanent Total Disability Certification Request Form, or other forms approved by the Department (such as the common deferment form).

Bankruptcy Claims

For a bankruptcy claim, the lender must submit—in addition to the preceding items *1* through *9*—notification of the bankruptcy filing, such as the Notice of the First Meeting of Creditors or other confirmation received from the bankruptcy court; a copy of the Proof of Claim filed by the lender, if required; an original assignment of the Proof of Claim; and all other pertinent documents sent to or received from the bankruptcy court.

Ineligible Borrower Claims

For an ineligible borrower claim, the lender is required to submit only items *1* through *9* of the preceding list—plus reasonable documentation supporting the borrower's ineligibility for the loan, such as an affidavit or letter from the school or a statement from the lender clearly stating the facts and allegations.

Closed School and False Certification Claims

Documentation requirements for closed school and false certification claims are outlined in subsections 8.2.G. and 8.2.H., respectively.

Documentation Required for Exceptional Performers

In the case of a loan filed under an exceptional performer designation, the lender is required to provide only the guarantor's claim form, promissory note, payment history or summary, collection history, and any applicable non-default documentation. Such a loan is not subject to additional review for due diligence, conversion to repayment, or timely filing requirements—except as determined by the guarantor or the Department to be necessary as part of the general program oversight responsibility.

8.3.C.
Missing Claim File Documentation

If a lender submits a claim file with any required documentation missing or incomplete, or if the guarantor determines that more information is needed to process the claim, the guarantor may attempt to obtain the necessary documentation or return the claim file to the lender with a request for the missing documentation.

To expedite the claim filing process and avoid the return of claim files to the lender, the guarantor may use a fax machine to request and receive missing information from lenders. The types of documentation that may be transmitted and received by fax include, but are not limited to, the application and promissory note, promissory note assignment, payment history information, deferment or forbearance documentation, and missing collection history. In the case of documentation where an original may be required (such as the application and promissory note), the lender may fax a copy of the document so that the guarantor can continue processing the claim. However, the lender must, within the time frame established by the guarantor, forward the original document—or a copy certified as true and exact—to the guarantor to avoid a future claim return.

▲ Lenders may contact individual guarantors for information on faxing claim file documentation. See section 1.5 for contact information.

If a lender is unable to provide requested documentation, the loan may be subject to interest penalties or due diligence violations. In other cases, such as missing payment histories, the guarantee on the loan may be canceled. However, the lender may attempt to have the loan’s guarantee reinstated in many cases by following the applicable cure procedures (see subsection 8.8.I.).

In some cases, an indemnification agreement will be accepted if a lender is unable to provide required documentation for claim filing.

▲ Lenders may contact individual guarantors for information on the use of indemnification agreements to substitute for documents required in the claim file. See section 1.5 for contact information.

Some guarantors have additional or alternate requirements regarding missing claim file documentation. These requirements are noted in appendix C.

8.3.D.
Claim File Receipt

Guarantors recommend that a lender retain copies of its postal or courier receipts for claims submitted and a list of all claims included in each package. Due to the difficulty in determining the lender’s filing date, in absence of evidence to the contrary, a guarantor will monitor timely claim filing activities by permitting a 5-day mail time allowance, based on the date the guarantor receives the claim file.

To obtain confirmation that its claim submission has been received, the lender should include two copies of a transmittal letter with each submission. The guarantor may retain one copy of the transmittal letter and will sign and date the other copy and return it to the lender. This will provide the lender with a quick and simple method of ensuring that all claims are received by the guarantor. At a minimum, the transmittal letter should include the borrower name, social security number, and claim amount for each claim file, with a space for the guarantor to sign and date the letter.

8.3.E.
Credit Bureau Reporting

As required under subsection 3.5.C., the lender must report to at least one national credit bureau the date a borrower’s loan is discharged due to the disability, bankruptcy, or the death of the borrower or dependent student, as applicable. For closed school and false certification claims, the current loan holder must, within 30 days of the date the lender is notified that a loan is discharged, notify all credit reporting agencies to which any adverse credit has been reported that the loan obligation has been discharged and that the adverse credit information must be corrected.
[§682.208(b)]

8.3.F.
Receipt of Payments after Claim Payment

A lender must forward to the guarantor any borrower payment received on a loan for which a claim has been purchased by the guarantor. The payment must be forwarded within 30 days of the lender's receipt of the payment.

8.4
Claim Returns

A guarantor will return a claim to the lender under certain circumstances. The guarantor will notify the lender of the reason for the return. Most claim returns occur for one of the following reasons:

- A lender is unable to provide sufficient documentation to justify a borrower's total and permanent disability.

- A borrower is actually eligible for a loan when a lender incorrectly determines that he or she is ineligible.

If a claim is returned with a request that the lender resume servicing, the lender must resume servicing the loan at the point of delinquency that existed on the loan immediately before the claim was filed (see the following subsections 8.4.A. and 8.4.B.).
[§682.406(a)]

8.4.A.
Refile Deadline

A lender may resubmit a returned claim if it reviews the returned claim, satisfies all requirements for refiling the claim, and determines that the loan is still eligible for claim purchase. Claim resubmissions are subject to the following requirements, as applicable:

- A bankruptcy claim must be resubmitted within 30 days after the lender's receipt of the returned claim. Failure to resubmit a bankruptcy claim by the 30th day will result in an interest penalty, provided the late refile has not resulted in the guarantor's missing any court-established deadlines for bankruptcy activity.

- Any other claim must be resubmitted within 60 days after the lender's receipt of the returned claim. However, claims resubmitted on the 31st through the 60th day inclusive are subject to certain restrictions, as outlined in subsection 8.8.E.
  [§682.406(a)(6); DCL 96-L-186/96-G-287, Q&As #36 and #37]

In absence of evidence to the contrary, the lender's receipt date is considered to be the date the guarantor returned the claim plus 5 days (for mailing).

For information on penalties for failure to resubmit returned claims timely, see subsection 8.8.E. In the case of a loan filed by a lender or servicer that has been designated an exceptional performer by the Department, no interest limitations are incurred due to untimely refiling of returned claims.
[§682.415(b)(7)(i)]

8.4.B.
Resuming Loan Servicing after Claim Return

If a guarantor returns a claim to a lender for a reason other than insufficient or missing documentation, the lender must resume servicing activities on the loan from the point of delinquency, if any, at which it ceased performing due diligence. The lender must ensure that all due diligence activities are performed accurately and timely, and that no gaps of 46 days or more occur.

The lender may not capitalize the interest accrued between the date the claim was inadvertently filed and the date it was subsequently returned, unless it obtains written authorization from the borrower. Guarantors recommend that a lender attempt to obtain authorization in the form of a forbearance agreement that enables the lender to capitalize all accrued interest and bring the loan current.

8.5
Claim Recalls

A lender is strongly encouraged to work with a borrower in any situation in which the borrower shows willingness to repay the debt. In such cases, the lender is strongly encouraged to recall the claim when appropriate.

A lender is required to recall a claim if any of the following situations occur before the guarantor purchases the claim:

- The loan is brought 120 or fewer days delinquent by receipt of a payment or a forbearance agreement. A forbearance agreement must include the borrower's agreement to repay.
- The borrower requests a deferment and submits all necessary documentation, and the documentation indicates that the borrower's eligibility began before the date of default. An administrative forbearance may be granted to cover any period of delinquency occurring before the deferment start date.
- The borrower requests a mandatory forbearance and submits all necessary documentation, and the documentation indicates that the borrower's eligibility began before the date of default.
- The lender becomes aware of the borrower's eligibility for a mandatory administrative forbearance (disaster relief, military mobilization, etc.) and the borrower's eligibility began before the date of default.
- The lender receives information or documentation (such as continuous in-school enrollment verification) that eliminates the default status.
- In the case of a bankruptcy claim, the lender receives notice that the court has declared the borrower's loan nondischargeable.

Some guarantors have additional requirements regarding the recall of claims. These requirements are noted in appendix C.

On an exception basis, a lender may request a waiver of the recall requirement in a situation where more than one recall has occurred previously.

A lender must immediately resume loan servicing upon receiving a recalled claim. If applicable, the next payment due date must fall within 45 days after the receipt of the recalled claim. Due diligence must be initiated based on the loan's new delinquency status as of the date that servicing resumes. If the loan is past due and the time frame within which the servicing is restarted does not require due diligence (on or after the 151st day of delinquency), the lender must mail, at a minimum, a new final demand letter and permit the borrower 30 days to respond to that letter before refiling the claim.

8.6
Claim Purchase

A guarantor will purchase a lender's default claim within 90 days of the date the claim was received, unless the lender fails to provide complete documentation or has committed one or more violations that warrant cancellation of the loan's guarantee (in which case the claim will then be returned unpaid).
[§682.406(a)(8)]

▲ Some guarantors may limit the amount of interest paid if the guarantor's agreement with the lender does not cover all of the accrued interest. See section 1.5 for contact information.

If a lender receives a payment by or on behalf of a borrower after a default claim has been filed but before it has been purchased, the lender must determine whether or not the claim should be recalled (see section 8.5). If the claim need not be recalled, the payment should be held until the claim payment is received. The lender should forward the payment to the guarantor within 30 days of receiving of the claim payment. A payment received after a default claim has been purchased must be forwarded to the guarantor for processing within 30 days of receipt. Any payment forwarded to the guarantor must be clearly marked as a borrower payment received prior to claim payment.

8.6.A.
Claim Payment Amount

A claim will be paid as follows if a lender has complied with applicable servicing requirements and has not incurred interest penalties or violations sufficient to cause the loss of guarantee on the loan:

- The guarantor will pay 98% of outstanding principal and eligible interest for each default claim filed on a loan first disbursed on or after October 1, 1993, or consolidated on or after that date.

- The guarantor will pay 100% of outstanding principal and eligible interest for each of the following types of claims:

    - A default claim filed on a loan that was first disbursed before October 1, 1993.

    - A non-default claim, such as a death, disability, bankruptcy, false certification, borrower ineligibility, or closed school claim.

    - A claim on a loan made under Lender of Last Resort (LLR) provisions.

    - A claim filed by a lender or servicer that has been designated an exceptional performer—except on a loan the lender is required to exclude from this designation. Claims on qualifying loans made by an exceptional performer are not subject to interest penalties or claim rejection. For more information on exceptional performers, see subsection 8.8.C.

8.6.B.
Amount of Interest Purchased on Eligible Claims

Generally, if a lender has complied with all applicable due diligence and loan servicing requirements, a guarantor will pay 98% or 100%, as applicable, of the outstanding interest owed from the interest-paid-through date through the date the guarantor purchases the claim.

Some guarantors may limit the amount of interest. These exceptions are noted in appendix C.

If the lender has committed certain violations of servicing requirements, but the loan is otherwise eligible for claim purchase, the guarantor will:

- Assess an interest penalty according to the type of violation or error that was made.

- Pay 98% or 100%, as applicable, of the interest for which the lender is eligible.

It is possible for a lender to incur more than one type of interest penalty and for more than one interest penalty to be assessed. For example, if a lender services a loan with nonreinsured capitalized interest from a previous period during which the loan lost its guarantee and then commits due diligence violations that result in a penalty, the lender's payment on the loan will not include the nonreinsured capitalized interest or any penalty interest for violations in the current due diligence cycle.
[§682, Appendix D]

For more information on interest penalties, see subsection 8.8.C.

8.6.C. Amount of Interest Purchased on Returned Claims

For a default claim, a guarantor's purchase of interest is not affected by the return of the claim, provided the lender refiles the claim in a timely manner (see subsection 8.4.A.). Generally, interest will be purchased from the interest-paid-through date on the loan through the claim purchase date, subject to any other interest penalties or limitations that apply.

After calculating the amount of interest for which the lender is eligible, the guarantor will pay 98% of that interest for loans disbursed on or after October 1, 1993—unless the loan was made under Lender of Last Resort provisions or the claim was filed by a lender or servicer designated as an exceptional performer (in which case the guarantor will pay 100% of the amount of interest for which the lender is eligible).
[§682.406(a)(6)]

If a death, disability, closed school, false certification, or bankruptcy claim is returned due to inadequate documentation, the guarantor's purchase of interest—if the lender does not incur any penalties for due diligence violations (as applicable, see subsection 8.8.C.) or for failure to meet timely filing or refiling deadlines—is as follows:

- The interest that accrues from the lender's current interest-paid-through date to the date the lender receives notification of the borrower's condition.

- The interest that accrues during the claim preparation period through the date the lender files the claim with the guarantor, not to exceed the original filing deadlines outlined in subsection 8.8.E.

- The interest that accrues from the date the lender receives a claim returned by the guarantor for additional documentation through the date the lender refiles the claim, provided that the period does not exceed 30 days following the return of the claim to the lender by the guarantor as outlined in subsection 8.8.E.

- The interest that accrues from the lender's timely claim filing or refiling date through the date the guarantor pays or returns the claim to the lender.
  [§682.402(h)(3)(ii); DCL 96-L-186/96-G-287, Q&A #34]

8.6.D. Requests for Increase in Claim Payment

If a lender receives a claim payment that it believes is less than it should be, the lender should determine whether a claim payment increase is warranted by:

- Reviewing the claims approved report to see whether there is an explanation of why the claim was purchased with an interest penalty (for example, as a result of due diligence violations occurring during the delinquency cycle).

- Confirming whether the interest-paid-through date the lender reported was accurate, as outlined in subsection 8.6.B.

- Ensuring that the amount of interest does not exceed the maximum allowed by the guarantor (see subsection 8.6.B.).

- Ensuring that the amount of the claim reduction is not due to the loan's eligibility for 98% insurance.

If, after making the preceding determinations, the lender believes that a claim payment increase is warranted, it must submit a request for increase in claim payment within 90 days of receiving the claim payment. To facilitate processing, the lender also should provide complete documentation that supports the basis for the claim payment increase request. Examples of such documentation include the servicing history, interest calculation tape, or relevant documentation omitted from the claim file in error.

A $25 minimum has been established for claim payment increase requests.

Some guarantors may have different filing deadlines and/or minimum requested increase amounts. These exceptions are noted in appendix C.

8.6.E. Exceptional Performers

A lender that is designated an exceptional performer by the Department receives 100% reimbursement on all claims submitted during the period of designation, regardless of due diligence or servicing violations. To be designated an exceptional performer, a lender must follow procedures outlined in subsection 3.9.A. To maintain an exceptional performer designation once obtained, a lender must meet the criteria outlined in subsection 3.9.B.

8.7
Claim Repurchase

If a lender discovers that a loan was declared to be in default due to circumstances beyond the control of the lender and borrower (rather than the borrower's action or inaction), guarantors strongly recommend that the lender repurchase the claim. Repurchases may be subject to guarantor approval.

A lender may be required to repurchase a claim if the guarantor becomes aware that the claim was inadvertently purchased due to circumstances such as the following:

- The lender incurred a servicing error (such as posting the borrower's payments to the wrong loan) or regulatory violation resulting in a loss of guarantee on the loan.
- New information is obtained demonstrating that the borrower currently should not be delinquent or in default.
- The school failed to verify the student's enrollment status.
- A delay occurred in the processing of a deferment that would have brought the account fewer than 90 days delinquent.
- The loan is found to be legally unenforceable.
- Other reasons as determined by the guarantor.

Under federal regulations, a lender is required to repurchase a loan that was paid as a bankruptcy claim if the bankruptcy is subsequently dismissed by the court or, as a result of the hearing, the loan is considered nondischargeable and the borrower is responsible for repayment of the loan. This requirement does not apply in the case of a default claim for which a bankruptcy notice was subsequently received. [§682.402(j)]

A guarantor will notify the lender in writing of the guarantor's recommendation or requirement to repurchase a claim. If the lender disagrees with any aspect of the recommendation or requirement to repurchase, the lender should notify the guarantor and submit any new pertinent information on the loan. In the absence of a valid appeal, a guarantor-initiated repurchase must be finalized by the lender within 60 days of the lender's receipt of the request.

A lender may choose to initiate a repurchase at any time by contacting the guarantor. After the guarantor receives the lender's repurchase request and any supporting documentation, the guarantor will contact the lender to advise whether the request has been approved or denied. If the request is approved, the lender will be quoted the repurchase amount due. The guarantor may elect to waive some or all of the accrued interest and collection costs during the post claim period. The lender may capitalize accrued interest for the period during which the loan was held by the guarantor without obtaining a signed forbearance agreement from the borrower. The lender must document that the capitalization was a result of a repurchase.

If a lender chooses to recall a claim but the guarantor is unable to stop the claim payment on the loan, the lender may repurchase the loan by remitting an amount equal to the claim payment to the guarantor within 30 days of receiving the claim payment.

Repurchase of Defaulted Loans

Upon receiving a lender's payment for the quoted repurchase amount, the guarantor will process the repurchase and provide the lender with appropriate file documentation and the original promissory note. Any payments received from the borrower that affect the repurchase quote will be applied as adjustments to the purchase amount or will be refunded to the lender.

Some guarantors have additional requirements regarding the repurchase of loans after a default claim has been paid. These requirements are noted in appendix C.

8.8
Claim Rejects

If a lender commits a sufficient number of unexcused due diligence, timely filing, or other violations of federal regulations or the guarantor's policies and procedures, the guarantee on the loan will be canceled and any claim will be rejected. Whenever a guarantor rejects a claim, the lender will be notified of the reason for the rejection.
[§682, Appendix D]

The following subsections describe the penalties that will be assessed if a lender incurs violations, allows gaps to occur during the performance of due diligence activities, or fails to file a claim in a timely manner. Also discussed are the applicable cure procedures a lender may perform to *(a)* reinstate a guarantee that has been lost as a result of such violations or gaps and/or *(b)* resubmit a claim—for example, upon completion of the intensive collection activities (ICA)/location cure procedure, which is outlined in subsection 8.8.K.

8.8.A.
Due Diligence Violations

If a lender fails to perform a required due diligence activity within the specified time frame, the failure is considered a violation. Due diligence violations include, but are not limited to, the lender's failure to perform any of the following activities in a timely manner:

- Make a required telephone contact or diligent effort to contact the borrower.
- Send a required collection letter.
- Request preclaim assistance from the guarantor as required.
- Conduct a skip tracing activity within the prescribed time frame.
- Establish a first payment due date.

For purposes of assessing due diligence violations, only violations that result from activities that were 6 days or more late (21 days or more in the case of a transfer) are counted. Although violations of 1 to 5 days do not result in penalties, they should be avoided. If a required due diligence activity is not performed or is performed 6 days or more late (21 days or more in the case of a transfer), such violation will result in a penalty to the lender or cancellation of the loan's guarantee.

Unless a due diligence violation occurs during the conversion to repayment, the violation will be excused if the borrower's loan is subsequently brought current before the 180th day of delinquency corresponding to the period during which the violation occurred. The borrower's loan may be brought current by payment, deferment, forbearance, or any combination of these elements.
A payment received on the borrower's behalf, a signed repayment agreement, or a signed forbearance that contains language reaffirming the borrower's intent to pay his or her loan will cure all curable violations. However, the granting of a deferment or forbearance alone cannot cure a loan if the lender incurs due diligence violations sufficient to cause a loss of guarantee on the loan.

Due diligence violations resulting from a lender's failure to convert the loan to repayment within the prescribed time frame may not be excused simply by bringing the loan current. The lender may still attempt to collect the interest that accrued from the repayment start date to the first payment due date by capitalizing and disclosing such interest to the borrower. However, the guarantor will not reimburse the lender for the unpaid uninsured interest if the violation is cured and a claim is subsequently submitted on the loan.

For loans on which reinsurance is lost due to servicing violations, the date of the earliest unexcused violation is:

- The 46th day after the latest date on which the first due date could have been established in cases where a lender failed to establish a timely first payment due date (see subsection 7.4.B. for information on establishing first payment due dates).
- The 46th day after the last collection activity in cases where a lender permits a gap in collections activities of 46 or more days.
- The 181st day of delinquency if there exist three or more due diligence violations of 6 days or more.
- The day after the latest date on which the claim could have been filed if the lender does not file a claim within the prescribed time frames.
  [DCL 96-L-186/96-G-287, Q&A #68]

If the guarantee on a loan is canceled because of a due diligence violation, the cancellation date will be the date of the earliest unexcused violation. Once the guarantee is lost, the lender must refund to the Department interest benefits and special allowance payments received on the loan since the date of the earliest unexcused violation. In other words, the lender must refund those interest benefits and special allowance payments received since the end of the delinquency period during which the lender first failed to perform timely a required collection activity.

8.8.B. Due Diligence Gaps

Intervals between collection activities are called gaps.

Due diligence gaps may occur beginning the day after:

- The payment due date of the loan, unless the borrower's address is unknown.
- The date the last payment was received on a loan that remains delinquent.
- The date the lender receives a new valid address for a delinquent borrower.
- The date the lender receives a new valid telephone number for a delinquent borrower.
- The date the last collection activity, including skip tracing efforts, was performed.
- The date on which the lender received notice of a dishonored check that had been submitted as payment on the borrower's account.
- The ending date of an authorized deferment or forbearance period on a delinquent loan.
- The date the lender determined that it no longer had a valid address.
  [§682.411(i)(1)]

Due diligence gaps end on the earliest of:

- The day on which the lender receives the first subsequent payment on behalf of the borrower.
- The day the lender receives a completed request for a deferment or forbearance.
- The day on which the lender begins the first subsequent collection activity, including skip tracing activities to obtain a valid address or telephone number for the borrower.
- The day on which the lender receives written communication from the borrower relating to the borrower's account.
- The date the loan defaults.
  [§682.411(i)(2)]

A gap of 46 days or more (61 days or more in the case of a transfer) between collection activities will result in the cancellation of the guarantee on the loan. The cancellation is effective from the date of the earliest unexcused violation. [§682.411(i)]

8.8.C. Penalties for Due Diligence Violations and Gaps

Default Claims

The penalties of interest limitation and guarantee cancellation on loans that have incurred due diligence violations and/or gaps are as follows:

1. If there are no due diligence violations of 6 days or more (21 days or more in the case of a transfer) and no gap of 46 days or more (61 days or more in the case of a transfer), the guarantor will purchase a claim on the loan and the lender will not incur an interest penalty. This provision is applicable to all time frames and activities described in 34 CFR 682.411.

2. If there are one or two due diligence violations of 6 days or more each (21 days more in the case of a transfer) and no gap of 46 days or more (61 days or more in the case of a transfer) and the lender completed all the required collection activities before the claim filing deadline, the activities will be considered to have been made up. However, any made-up collection activity for an endorser will not be assessed a violation (see subsection 8.1.E.). The guarantor will calculate the purchase of the claim on the outstanding principal and the interest that accrued through the date of default. Interest benefits and special allowance are limited to the amounts that accrued through the date of default; the lender must make appropriate adjustments to its ED Form 799 billing.

3. If there are one or two due diligence violations of 6 days or more each (21 days or more in the case of a transfer) and no gap of 46 days or more (61 days or more in the case of a

transfer), but the lender did not complete the required collection activities before the claim filing deadline, the guarantor will calculate (except as noted in the following paragraph) the purchase of the claim based on the outstanding principal balance and the interest that accrued through the 90th day before default. Interest benefits and special allowance are limited to the amounts that accrued through the 90th day before default; the lender must make appropriate adjustments to its ED Form 799 billings.

If the failure to submit a request for preclaim assistance by the 240th day of delinquency is one of the due diligence violations under item 2 or 3 above, the guarantor will purchase the claim. However, the lender will not be entitled to receive interest, interest benefits, and special allowance for the most recent 180 days preceding the date on which the loan defaulted. The lender should make the appropriate adjustments to its ED Form 799 billings.

4. If there are three or more due diligence violations of 6 days or more each (21 days or more in the case of a transfer) and no gap of 46 days or more (61 days or more in the case of a transfer), the guarantee on the loan will be canceled effective with the date of the earliest unexcused violation. The lender may cure the loan but must immediately stop billing the Department for interest benefits and special allowance payments and must refund any interest benefits and special allowance payments received since the date of the earliest unexcused violation (see subsection 8.8.H.).

5. If there is a gap of 46 days or more (61 days or more in the case of a transfer) and one or more violations, the guarantee on the loan will be canceled effective with the date of the earliest unexcused violation. The lender may cure the loan but must immediately stop billing the Department for interest benefits and special allowance payments and must refund any interest benefits and special allowance payments received since the date of the earliest unexcused violation (see subsection 8.8.H.).

6. Any period for which all or a portion of the payment history of a loan is missing is treated as a serious due diligence violation—one that results in a loss of guarantee on the loan. The lender also loses the right to collect interest benefits and special allowance payments from the scheduled date of the earliest unrecorded payment until the violation is cured (see subsection 8.8.I.).

7. If the lender fails to establish a first payment due date within the time frames specified (see subsection 7.4.B.), the lender may incur a violation. If the actual first due date is 46 days or more after the latest date on which the due date should have been set, the loan loses its insurance. The lender must refund special allowance received for the period beginning 46 days after the latest date on which the first due date should have been established.
   [§682, Appendix D; DCL 96-L-186/96-G-287, Q&As #47 and #62]

Non-Default Claims

If a lender incurs a due diligence violation that results in a loss of guarantee and, as of the date it learned that the borrower filed bankruptcy, the violation is not yet cured, the lender may attempt to cure the violation only if the bankruptcy action has been concluded and the loan was not discharged, dismissed, or the bankruptcy action in which the loan was previously discharged has been reversed. If the violation is subsequently cured, interest benefits and special allowance will be limited to those amounts accruing through the date of the earliest unexcused violation and will restart on the date that the loan is cured. Under no circumstances will a guarantor purchase a bankruptcy claim if, before the lender determines that the borrower has filed a bankruptcy petition, the lender committed a due diligence violation that resulted in a loss of guarantee and that was not cured before receiving notification of the bankruptcy filing.

There is no cure for due diligence violations on loans for which a death or disability claim is filed. If the violations are not cured before the date of the death or disability notification, the lender must discharge the loan—even though the balance will not be reimbursed by the guarantor.

For closed school and false certification claims, due diligence is not monitored. Therefore, no due diligence violations will be assessed.

For ineligible borrower claims, the only due diligence monitored is ineligible borrower collection activity after notification. Therefore, no due diligence violations will be assessed for any delinquency preceding notification of ineligibility.

Some guarantors have additional policies on monitoring due diligence before ineligibility. These policies are noted in appendix C.

In the case of a loan filed by a lender or servicer that has been designated an exceptional performer by the Department, no penalties will be assessed for due diligence violations.

Some guarantors have additional or alternate requirements regarding penalties for due diligence violations and gaps. These requirements are noted in appendix C.

8.8.D.
Timely Claim Filing Violations

A lender will incur a timely filing violation if it fails to submit:

- A default claim by the 270th day of delinquency. [§682.406(a)(5)]
- A death claim within 60 days after receiving the borrower's or student's death certificate or other acceptable proof of death. [§682.402(g)(2)(i)]
- A disability claim within 60 days after receiving the physician's certification of the borrower's total and permanent disability. [§682.402(g)(2)(i)]
- A bankruptcy claim within 30 days after receiving notification that the borrower has filed a bankruptcy petition—unless the lender receives information indicating that the loan may be determined to be dischargeable due to undue hardship. If the loan is dischargeable due to undue hardship, the lender must file a bankruptcy claim within 15 days of receiving that notification or, if the lender secured an extension of time within which to respond, 25 days before the expiration of that extended period. [§682.402(g)(2)(iv)]
- An ineligible borrower claim within 120 days after the date on which the final demand letter was mailed to the borrower and the borrower did not respond. [§682.406(a)(5)]
- A closed school claim within 60 days after receiving the borrower's written request for discharge. [§682.402(g)(2)(ii)]
- A false certification claim within 60 days after receiving the borrower's written request for discharge. [§682.402(g)(2)(iii)]

If a guarantee is canceled as the result of a timely filing violation, the cancellation is effective on the date the filing deadline expires.

8.8.E.
Penalties for Timely Claim Filing Violations

Original Filing Deadline

Default Claims
Submission of a default claim between the 240th and 270th day of delinquency will result in loss of eligibility for special allowance beyond the 240th day of delinquency. Failure to submit a default claim by the 270th day of delinquency will result in cancellation of the guarantee on the loan. However, the lender may cure the violation and resubmit the claim if the default remains unresolved after the loan has been cured (see subsection 8.8.J.).

Death Claims
Although a lender must submit a death claim within the required 60-day time frame, failure to do so does not affect the guarantor's ability to collect on the loan. Therefore, if the lender did not incur violations resulting in a noncurable cancellation of the guarantee before determining that the borrower or student died, the guarantor will purchase the claim. However, interest will be limited to the amount that accrued through the 60-day filing period, subject to any interest penalties. The lender also will be required to repay all interest benefits and special allowance payments received on the loan for periods after the expiration of the 60-day filing period. If the lender incurs a timely claim filing or due diligence violation that results in the cancellation of the guarantee on the loan before the date it determined that the borrower or student died, the guarantee on the loan will be canceled, and the lender will be prohibited from attempting to collect on the loan or curing the violation.

Disability Claims
If a disability claim is not filed within the required 60-day filing period, the guarantor will purchase the claim—provided the lender did not incur violations that resulted in a noncurable cancellation of the guarantee before receiving certification of the borrower's disability. However, the claim will be subject to an interest penalty, and the lender will be required to repay all interest benefits and special allowance payments for amounts received or otherwise payable after the 60-day filing period. If the lender incurs a timely claim filing or due diligence violation that results in the cancellation of the guarantee on the loan before the date it determined that the borrower became disabled, the guarantee on the loan will be canceled, and the lender will be prohibited from attempting to collect on the loan or curing the violation.

Bankruptcy Claims
Failure to submit a bankruptcy claim by the end of the applicable 30-day, 15-day, or 25-day filing deadline will result in permanent cancellation of the guarantee on the loan—unless the lender can demonstrate that *(a)* the bankruptcy action has concluded and the loan was not discharged, or *(b)* the bankruptcy action in which the loan was previously discharged has been reversed or dismissed. In either case, the lender need not cure the violation. The lender must return the loan to the status that would have existed had the bankruptcy action not occurred and resume servicing the loan. If the loan is returned to repayment status, the lender should grant an administrative forbearance to resolve any delinquency that exists at the time the loan reenters repayment.

The claim, if purchased, will be subject to an interest penalty, and the lender will be required to repay all interest benefits and special allowance payments for amounts received or otherwise payable from the expiration of the initial applicable 30-day, 15-day, or 25-day filing deadline through the earlier of the date on which the claim is filed as a different claim type or the date on which the loan regains its insurance. The loan is considered to regain its insurance on the date that the bankruptcy action concludes and the loan is not discharged or the date on which the discharge is reversed.
[DCL 96-L-186/96-G-287, Q&As #67 and #73]

Ineligible Borrower Claims
If an ineligible borrower claim is not submitted within the specified 120-day time frame or the final demand letter is not mailed in a timely manner, the lender must attempt to cure the violation by performing the intensive collection activities (ICA)/location cure procedures for the borrower (see subsection 8.8.J.) before the guarantor will purchase the claim. If the claim is purchased in this case, interest will be limited to the end of the 120-day filing period, and the lender must repay any interest benefits paid on the ineligible portion of the loan.

Closed School and False Certification Claims
If a closed school or false certification forgiveness claim is not filed within the required 60-day filing period, the guarantor will purchase the claim. However, the claim will be subject to an interest penalty, and the lender will be required to repay all interest benefits and special allowance payments for amounts received or otherwise payable after the 60-day filing period.

Claims Filed by Exceptional Performers
No penalties will be assessed for timely filing violations in the case of a claim filed by a lender or servicer that has been designated an exceptional performer by the Department.

Refile Deadline

Default and Ineligible Borrower Claims
Resubmission of a default or ineligible borrower claim on the 31st through the 60th day inclusive after the original rejection will result in loss of eligibility for interest, interest benefits, and special allowance payments beyond the 30th day after the original rejection. Failure to resubmit the claim by the 60th day after the original rejection will result in cancellation of the guarantee on the loan. However, the lender may cure the violation and resubmit the claim if the default remains unresolved after the loan has been cured (see subsection 8.8.J.).
[DCL 96-L-186/96-G-287, Q&As #36 and #37]

Death, Disability, Closed School, and False Certification Claims
Failure to resubmit a death, disability, closed school, or false certification claim by the 30th day after the original rejection will result in loss of eligibility for interest, interest benefits, and special allowance payments beyond the 30th day after the original rejection. If the claim is not resubmitted by the 60th day, the claim will be paid, but the lender's eligibility for interest subsidy and special allowance will end as of the 30th day after the original rejection.

Bankruptcy Claims
Failure to resubmit a bankruptcy claim by the 30th day after the lender's receipt of the original rejection will result in loss of eligibility for interest, interest benefits, and special allowance payments beyond such 30th day, provided the late refiling has not resulted in the guarantor missing any court-established deadlines for bankruptcy activity. If the late refiling has resulted in the guarantor missing any court-established deadlines for bankruptcy, the result will be permanent cancellation of the guarantee on the loan—unless the lender can demonstrate *(a)* that the bankruptcy action has concluded and the loan was not discharged or *(b)* that the bankruptcy action in which the loan was previously discharged has been reversed or dismissed. In either case, the lender need not cure the violation; however, the loan is not eligible for interest or special allowance from the timely refiling deadline through the date the bankruptcy action was discharged, dismissed, or reversed. The lender

must return the loan to the status that would have existed had the bankruptcy action not occurred and resume servicing the loan. If the loan is returned to repayment status, the lender should grant an administrative forbearance on the loan to resolve any delinquency that exists at the time the loan reenters repayment.

Some guarantors may have different requirements for the refiling of bankruptcy claims. These exceptions are noted in appendix C.

Claims Filed by Exceptional Performers
No penalties will be assessed for timely filing violations in the case of a claim filed by a lender or servicer that has been designated an exceptional performer by the Department.

8.8.F.
Reinstatement of the Guarantee: Cure Procedures

A lender may have the guarantee on a loan reinstated by curing the applicable violation, except in the circumstances noted in the preceding subsection 8.8.E. Upon reinstatement of a loan's guarantee, the lender is again eligible to receive claim payments, interest benefits, and special allowance payments on the loan; the lender is ineligible to receive these payments from the date of the first unexcused violation to the date of the cure. The date of the cure is the date the lender receives a new repayment agreement signed by the borrower or one full payment. If a default claim is submitted after the cure, the interest-paid-through date (IPT date) must be adjusted to exclude the amount of nonreinsured interest not paid by the borrower from the claim or, if the interest was capitalized, the amount of capitalized interest that is not insured.

Unless the lender successfully obtains a signed repayment agreement or a full payment from the borrower before completing the intensive collection activities (ICA)/location cure procedure (see subsection 8.8.K.), completing this cure procedure does not result in reinstatement of the guarantee on the loan. A full payment is defined as a payment by the borrower or another person (other than the lender) on the borrower's behalf in an amount equal to or greater than the regularly scheduled payment amount required under the existing loan terms, exclusive of any forbearance agreement in force at the time of default. The $5 tolerance is not applicable to a curing payment. For example, if the original repayment schedule called for $50 monthly payments, but a forbearance was in effect at the time of default that allowed the borrower to pay $25 monthly, a full payment would be considered $50 (in accordance with the original repayment agreement). Further, a curing payment may be received in increments. If the guarantee is lost and the lender receives a partial payment equal to the amount of one full payment, the partial payment may constitute a full payment and the cure date may be considered the date on which the lender receives the payment that completes the full payment requirement.
[§682, Appendix D; DCL 96-L-186/96-G-287, Q&A #63]

For the lender's receipt of a new repayment agreement (original, photocopy, or facsimile) signed by the borrower to constitute a cure, both the lender and borrower must agree to the terms. Furthermore, the terms of the new agreement must comply with the applicable repayment limitation and minimum annual payment requirement. If the borrower signs the agreement but makes immaterial alterations (for example, changes to his or her name, social security number, or address), the lender must review the changes and make the necessary alterations to the account, but may consider the account cured.

If the borrower signs the agreement and makes material alterations (for example, changes to the repayment schedule information), the document does not generally constitute a cure. However, if the lender agrees to the material alterations, the signed agreement may be considered a cure.

If the lender receives a full payment or a new repayment agreement signed by the borrower, the guarantee on the loan is reinstated. The lender must treat the loan as current, establish a next payment due date that is within 45 days of the date the lender receives the signed repayment agreement or one full payment, and immediately resume servicing on the loan. The loan regains eligibility for interest benefits and special allowance payments from the date of the cure. Also, interest accrued from the date of the earliest unexcused violation through the guarantee reinstatement date may be capitalized through an administrative forbearance or cure forbearance. However, the lender will not be reimbursed for this amount of capitalized interest if it later submits a claim on the loan. The lender will be permitted to extend the applicable repayment period by the length of the cure forbearance.

To have the guarantee on a loan reinstated, the lender should notify the guarantor of the completion of the curing activity, submit a request for reinstatement of the guarantee, and provide any required documentation. A copy of the curing instrument must be retained by the lender and included in any subsequent claim file.

A lender must complete the prescribed cure activities or reinstate a loan's guarantee no more than 3 years from:

- The last date the loan could have been filed timely as a claim with the guarantor, if the claim was not filed.

- If the claim was filed, the date the guarantor returned the claim for loss of guarantee.

The prescribed cure activities are considered complete as of the date a full payment or a signed repayment agreement is received by the lender or, in the case of intensive collection activities (ICA)/location cure procedures, on the date the default claim is filed. Failure to complete the prescribed activities or reinstate a loan's guarantee by the end of the 3-year period will result in an irrevocable loss of the loan's reinsurance.
[DCL 96-L-186/96-G-287, Q&A #72]

8.8.G.
Amount of Interest Purchased on Cured Claims

In the case of a claim on a loan for which a cure procedure was performed, interest will be purchased as follows—depending on whether performance of the cure procedure resulted in the reinstatement of the guarantee on the loan:

- If the violation was cured and the guarantee was reinstated based on the receipt of one full payment or a new repayment agreement signed by the borrower, interest will be purchased up to the date of the earliest unexcused violation and from the reinstatement date (the date the loan was cured) through the date the guarantor purchases the claim, subject to any further interest penalties or limitations that apply.

- If the violation was cured, but the guarantee was not reinstated—upon completion of the intensive collection activities (ICA)/location cure procedure, which is outlined in subsection 8.8.K.—interest will be purchased from the interest-paid-through date (IPT date) through the earliest unexcused violation date.

Any unpaid interest accruing after the date of the earliest unexcused violation, after the date of the last payment received before the cure is accomplished, and before the date of reinstatement of the guarantee will not be purchased. The lender may capitalize the interest that accrued from the date of the earliest unexcused violation through the reinstatement date (for the period of noninsurance). However, the lender will not be reimbursed for this amount as part of any future claim payment. It is the lender's responsibility to ensure that the appropriate adjustment is made (for example, adjusting the IPT date forward to deduct such interest before submitting a request for claim payment). If it appears that the lender has not deducted interest capitalized for the period of noninsurance, the guarantor will either return the claim for correction or make any necessary adjustments on the lender's behalf.
[§682, Appendix D]

8.8.H.
Cure Procedure for Due Diligence Violations and Gaps

If a loan's guarantee has been canceled as a result of due diligence violations or gaps, the lender has the following two options to reinstate the guarantee on the loan. The severity of the violations or gaps determines which of the options is appropriate for the lender. If the lender has committed both due diligence and timely filing violations and the due diligence violations also require a cure, the lender must attempt to cure the loan according to the appropriate due diligence cure procedure (rather than the cure procedure for timely claim filing violations).

- *Option 1:* If there have been three violations and no gaps of 46 days (61 days in the case of a transfer), the lender must meet one of the following requirements:

  - Obtain a full payment or a new repayment agreement signed by the borrower.

  - Locate the borrower and perform the intensive collection activities (ICA)/location cure procedure described in subsection 8.8.K.

- *Option 2:* If there have been more than three violations of at least 6 days (21 days in the case of a transfer) or a gap of 46 days or more (61 days in the case of a transfer), the lender must obtain one full payment or a new repayment agreement signed by the borrower.

If the lender is successful in obtaining a full payment or a new repayment agreement signed by the borrower, the guarantee on the loan is reinstated. As indicated in subsection 8.8.F., the lender must treat the loan as current, establish a next payment due date that is within 45 days of the cure date, and immediately resume servicing on the loan. Interest benefits and special allowance are reinstated from the date of the cure.

Inadvertent Cures

As a lender services a loan, violations may occur that would cause a loan to lose its guarantee. In some cases, these violations may go undetected. If a payment is made after such a period, the payment may inadvertently cure all prior violations. The lender would not have recognized the need to bring the loan current. Such a situation is called an inadvertent cure. If sufficient payment is received after the date the guarantee would have been lost to bring the account current, the guarantor will review the claim as though a cure by payment has occurred based on the due date after the payment.

8.8.I.
Missing Payment History

A guarantor views a period of missing payment history as a serious due diligence violation that must be cured, regardless of the length of the period. A loss of guarantee on a loan will result during any period for which all, or a portion of, the payment history is missing. Although the lender is not required to reconstruct the missing payment history, the lender may deem it necessary in the event a borrower disputes the balance of the loan.

If the borrower does not dispute the amount owed for the missing period, the violation may be cured by the receipt of either one full payment or a new repayment agreement signed by the borrower that complies with the terms of the promissory note.

If the borrower disputes the amount owed for the missing period, the lender must do one of the following to reinstate the guarantee, in addition to curing the violation through the receipt of either a full payment or a new, signed repayment agreement:

- Provide adequate documentation to support the amount owed in accordance with the period of missing payment history. Adequate documentation may include:
    - Canceled checks for the missing payments.
    - A reconstructed payment history reflecting approximately the same ending principal balance that the borrower would owe if all payments were made on time and the borrower does not claim to have made prepayments.
    - A record of the missing payment history.
- Reach an agreement with the borrower in writing as to the correct amount owed. The signed repayment agreement may satisfy this requirement if it clearly states the balance owed. Interest benefits and special allowance may be billed only on the undisputed balance.

If the lender is unsuccessful in resolving the dispute (for example, it is unable to provide adequate documentation or reach an agreement with the borrower) but otherwise cures the violation by receiving a full payment or signed repayment agreement that does not include the amount owed, the guarantee will be reinstated on the undisputed amount.

Interest benefits and special allowance payments received from the date of the earliest unexcused violation through the date of the cure must be refunded to the Department by the lender. To make these adjustments, the lender must calculate the borrower's outstanding indebtedness for the period of missing payment history. As noted, the lender may need to reconstruct a payment history for the missing period but will not be required to include this reconstructed history in a claim file. If a claim is later filed on the loan, the lender may be required to include a statement certifying that the required billing adjustments have been made. The lender must ensure that it does not include in its claim payment request the amount of any repayment interest corresponding to the period of missing payment history.

Some guarantors have additional policies addressing when a current holder is missing payment history from a prior holder. These policies are noted in appendix C.

8.8.J.
Cure Procedure for Timely Filing Violations

If a lender incurs a timely filing violation on a default claim, the lender may reinstate the guarantee through one of the following:

- The receipt of a full payment.
- The receipt of a new repayment agreement signed by the borrower.
- Successful completion of the intensive collection activities (ICA)/location cure procedure (see the following subsection 8.8.K.).

If the lender obtains a full payment or a new repayment agreement signed by the borrower, the guarantee on the loan is reinstated. As indicated in subsection 8.8.F., the lender must treat the loan as current, establish a next payment due date that is within 45 days of curing the violation, and immediately resume servicing of the loan. Interest benefits and special allowance will be reinstated as of the date of the cure.

If the lender performs the ICA/location cure procedure but is not successful in obtaining a full payment or a new repayment agreement signed by the borrower, it must file a claim with the guarantor within 60 days of completing these activities. The guarantor will purchase the claim for the loan's outstanding principal balance, but interest will be limited to that accruing through the date of the timely filing deadline, subject to any further interest penalties or limitations that apply.

8.8.K. Intensive Collection Activities (ICA)/ Location Cure Procedure

A lender must complete all of the following activities when attempting to cure a violation on an eligible borrower's loan using the intensive collection activities (ICA)/location cure procedure:

1. Locate the borrower through certification of the borrower's location (see the following subsection 8.8.L.).

2. Send the borrower, within 15 days of locating the borrower, a new repayment agreement for the borrower to sign and a forceful collection letter describing the consequences of default and its potential effect on the borrower's credit rating. The borrower must be given 15 days to respond to the letter by either making a full payment or signing and returning the new repayment agreement.

3. Make a diligent attempt to contact the borrower by telephone within 5 days thereafter (if the borrower does not respond within the required 15-day time frame).

4. Make another diligent attempt to contact the borrower by telephone within 5 to 10 days of completing the activity described in item 3 above.

5. Send a forceful collection letter within 5 to 10 days after completing the telephone contact efforts described in item 4, demanding that the entire unpaid balance of the loan be repaid immediately. The letter also should warn the borrower that the lender will file a default claim with the guarantor if the borrower fails to contact the lender to make arrangements or repay the loan within 30 days of the date of the letter.

   There is no 5-day tolerance regarding performance of ICA/location cure activities.

6. File a default claim within 31 to 60 days after mailing the final collection letter described in item 5 (if the borrower fails to make a full payment or sign a new repayment agreement by the 30th day after the lender mails the final collection letter). If the guarantor purchases the claim, the amount of the claim payment will be calculated based on the amount of the outstanding principal and interest accrued through the date of the earliest unexcused violation. However, because the violation is not considered cured, the lender does not regain the right to collect (and thus must refund) interest benefits and special allowance payments that would otherwise have been payable from the date of the earliest unexcused violation before the guarantee cancellation date.

If the lender discovers that the borrower's telephone number is invalid while performing the ICA/location cure procedure, the lender must attempt to obtain a valid number as it continues performing the remaining collection activities, as required in the ICA/location cure procedures.

The lender must complete the entire cycle of collection activities required under this cure procedure. If the lender has exhausted its efforts to obtain a valid number, telephone attempts to contact the borrower are not required, but the lender must send the required collection letters. The letters may be sent according to the regular ICA/location cure procedure schedule (allowing for the time that would normally be allocated to telephone attempts) or the schedule may be shortened by omitting those times. In either case, the lender must indicate whether it obtained a valid telephone number for the borrower on the Certification of Borrower Location that is required upon locating the borrower (see the following subsection 8.8.L.).

ICA/Location Cure Procedure for Ineligible Borrower Claims

If the lender incurs a timely filing violation on an ineligible borrower claim or sends a required demand letter late, the lender may have the guarantee reinstated by performing the following cure procedure:

1. Locate the borrower through certification of the borrower's location (see the following subsection 8.8.L.).

2. Send the borrower, at the address at which he or she was located, a forceful collection letter within 15 days after locating the borrower. The letter must meet the following requirements:

   - State that the entire ineligible portion of the loan is due and payable.

   - State that, if full payment of the amount demanded is not received within 70 days from the date of the letter, the lender will file a default claim with the guarantor.

   - Indicate in strong terms the potential effect on the borrower's credit rating if payment is not received.

   - Include a repayment schedule or other information clarifying the amount owed on any eligible portion of the loan.

3. Make a diligent attempt to contact the borrower by telephone within 5 days thereafter (if the borrower fails to make full payment of the ineligible portion within 15 days after the lender sends the forceful collection letter and repayment schedule).

4. Make another diligent attempt to contact the borrower by telephone within 5 to 10 days after completing the efforts described in item 3.

5. Send a second letter demanding payment in full of the entire ineligible portion of the loan within 5 to 10 days after completing the efforts described in item 4. The letter must warn that a default claim will be filed if payment is not received within 30 days.

   There is no 5-day tolerance regarding performance of the ICA/location cure activities.

6. File a default claim on the entire loan balance within 60 days after the lender completes all of the preceding collection efforts, if payment in full of the ineligible portion of the loan is not received on or before the 30th day after the lender completes these efforts. The lender's claim file must include acceptable certification of the borrower's location and a record of its completion of the ICA/location cure procedure.

If, at any time on or before the 30th day after the lender completes the preceding collection efforts, the lender receives payment in full of the ineligible portion of the loan, the payment should be applied as a prepayment to the borrower's loan. Any eligible portion of the loan will be reguaranteed and should be treated as current.

8.8.L.
Certification of Borrower Location

The following documentation is the only acceptable evidence that the borrower has been located:

- A postal or courier receipt, signed by the borrower no earlier than 15 days before the date on which the lender sent the new repayment agreement, indicating acceptance of correspondence from the lender by the borrower at the address shown on the receipt.

- Documentation submitted by the lender showing the lender's name, lender identification number (LID), and the address of the lender; the borrower's name and social security number; and a certification of borrower location signed by an employee or agent of the lender certifying that:

  - On a specified date, an employee spoke with or received written communication from the borrower, parent, spouse, sibling, roommate, or neighbor of the borrower.

  - The address and telephone number of the borrower was provided to the lender in the call or letter. If the borrower's address or telephone number was provided to the lender by someone other than the borrower, the lender also must certify that the new repayment agreement and collection letter sent as part of the intensive collection activities (ICA)/ location cure procedure was not returned as undeliverable as of the date the default claim is filed on the cured loan.

If the borrower is located, the lender must include a copy of the certification of borrower location in any subsequent ICA/location claim file.

8.9
Reinstatement of Borrower Eligibility after a Default Claim Is Purchased

A borrower with one or more defaulted Title IV loans may have his or her eligibility for Title IV aid reinstated by making satisfactory payment arrangements and fulfilling those arrangements with the holder of each defaulted loan. A borrower who receives loan funds for which he or she is ineligible due solely to his or her error may not have Title IV eligibility reinstated until the ineligible funds are repaid in full.

A borrower may receive benefit from this provision only once. If a borrower has his or her eligibility reinstated and then fails to maintain satisfactory payment arrangements on that defaulted loan, the borrower is not eligible for a second reinstatement. An opportunity for reinstatement may be made available to a borrower regardless of whether any of the borrower's defaulted loans have been repurchased by an eligible lender.

To have eligibility for Title IV aid reinstated, a borrower must make 6 consecutive full monthly payments to the appropriate holder for each defaulted loan. These payments must be made on time (within 15 days of the payment due date), voluntarily (directly by the borrower, regardless of whether there is a judgment against the borrower), and must be reasonable and affordable. Any court-ordered payments or involuntary payments obtained by tax offsets, wage garnishment, or income or asset execution will not count toward the 6 payments required for reinstatement. A lump sum prepayment of future installments does not satisfy the requirement for 6 consecutive monthly payments and will not reinstate a borrower's Title IV eligibility.

To determine whether a borrower qualifies for reinstatement of Title IV eligibility, the guarantor will review the most recent 6-month period. Each of the 6 required payments must be received within 15 days of the due dates for the 6 months immediately preceding the date the guarantor receives the borrower's new loan application and promissory note or request for reinstatement.

If the school is informed that the borrower has defaulted on a prior loan, the school must obtain, before certifying the borrower's eligibility for a new loan, documentation from the borrower or the holder of the loan that the borrower has made the required payments on any defaulted loan(s). The documentation must include a certification from the guarantor regarding each defaulted loan. The documentation must be attached to the new loan application when it is sent to the guarantor for guarantee processing, unless the information is already available to the guarantor. For additional requirements regarding reinstatement of Title IV eligibility, see subsection 5.2.E.
[§682.401(b)(4); April 1996 Supplement to DCL 96-G-287/96-L-186, Q&A #6.]

8.10
Rehabilitation of Defaulted Loans

A borrower may rehabilitate a defaulted loan by making satisfactory repayment arrangements with the guarantor or a collection agency acting on its behalf. A borrower who receives loan funds for which he or she is ineligible due solely to his or her error may not rehabilitate the ineligible funds or otherwise have his or her Title IV eligibility reinstated until the ineligible funds are repaid in full.

To be eligible for rehabilitation, a borrower must make 12 consecutive on-time (received within 15 days of the due date) full monthly payments to the guarantor or its contracted vendor. Payments must be made voluntarily by the borrower and must be equal to or greater than the amount determined to be reasonable and affordable. Payments obtained by tax offsets, wage garnishment, trustee payments, or income or asset execution will not satisfy requirements for rehabilitation.

The 12 payments must be received during the 12 months immediately preceding the rehabilitation of the defaulted loan. Payments will be considered voluntary if made directly by the borrower, regardless of whether there is a judgment against the borrower. A lump sum prepayment of future installments cannot be used to satisfy the 12 consecutive payment requirement. If the borrower fails to send a payment on time during any of the 12 months during which payments are required for rehabilitation, he or she must begin the entire 12-month cycle again. A new 12-month cycle will begin from the time a new, on-time, voluntary, reasonable and affordable payment is received—regardless of any prepayments of future installments the borrower may have made.

The guarantor will make the determination of what constitutes a reasonable and affordable payment based on each borrower's financial circumstances. Factors to be considered include the borrower's monthly income (and that of his or her spouse, if applicable), the monthly expenses of the borrower and any spouse or dependents, and the unpaid balance on all FFELP loans held by other holders. If the borrower's reasonable and affordable payment is determined to be less than $50 or the amount of the accruing interest on the borrower's loan(s), the guarantor will document the basis for the determination and retain it in the borrower's file, which will be forwarded to the purchasing lender.

A guarantor will assist a borrower in securing the purchase of each defaulted loan by an eligible lender only after:

1. The borrower satisfies his or her obligation to make 12 monthly payments, as prescribed above.

2. The borrower authorizes the guarantor to capitalize collections costs.

3. The borrower requests assistance in obtaining a rehabilitation repurchase.

4. The guarantor determines that the borrower is a good candidate for rehabilitation. A borrower may not be considered a good candidate for rehabilitation if he or she will be required to make monthly payments after the rehabilitation that are considerably higher than the amount determined to be reasonable and affordable for the borrower.

5. The borrower signs a new promissory note for any loan on which a judgment has been entered. A judgment that was obtained against the borrower is considered satisfied when the affected loan(s) is rehabilitated and purchased by an eligible lender. Lenders purchasing loans on which a judgment has been rendered must include in that purchase all costs associated with the judgment, including court costs. These amounts may be added to the principal balances of the loans.

If the guarantor is unable to secure a lender, the borrower will be responsible for obtaining an eligible lender to purchase his or her defaulted loan(s).

The guarantor or its contracted vendor acting on its behalf will notify the borrower of repayment terms, including what has been determined to be the reasonable and affordable payment amount. If the borrower's financial circumstances change after the determination, the borrower may request that the repayment terms be adjusted. The borrower must include documentation substantiating his or her request for a recalculation of the reasonable and affordable payment amount previously established.

Upon purchase of a loan by an eligible lender, the guarantor will report the loan to national credit bureaus as no longer in default, and the loan will be considered rehabilitated. On a loan for which a judgment was obtained, the guarantor will report the satisfaction of that judgment.
[§682.405(a)]

A lender that purchases a rehabilitated loan must immediately establish a repayment schedule with the borrower that meets the requirements applicable to other FFELP loans of the same type. The schedule must be sent to the borrower within 60 days of receiving the loan file, and the first payment due date must be within 75 days of receipt of that file. The lender must consider the first payment made under the 12 consecutive monthly payments required for rehabilitation as the first payment under the applicable maximum repayment period for the loan type (for example, a borrower would have a maximum repayment period of 9 years remaining on a loan with a 10-year repayment period, and a Consolidation loan borrower with a balance greater than $60,000 would have a maximum repayment period of 29 years, because the 12 consecutive monthly payments are considered the first year of a repayment term). The initial repayment schedule must provide for monthly payments that are greater than or equal to the average of the 12 consecutive monthly payments received by the guarantor. The guarantor will provide payment history information (such as payment amounts and dates) with the loan documentation sent to the purchasing lender to assist in the accurate conversion to repayment. A rehabilitated loan retains the same interest rate and deferment provisions that were applicable when the loan was first disbursed and repayment terms and all other benefits applicable to other FFELP loans made under the same loan type.
[§682.405]

The borrower regains eligibility for deferment only to the extent that he or she has not already exhausted those deferment privileges before his or her initial default. For example, a borrower who was initially eligible for 24 months of unemployment deferment, and who used 12 months of that eligibility before his or her default, would be eligible to defer the rehabilitated loan for only 12 months due to any future unemployed status.

8.11
Preclaim Request Form

The Preclaim Request Form (see appendix F) is designed to be used by a lender as a request for preclaim assistance. On the basis of this request, the guarantor also will initiate supplemental preclaim assistance, unless otherwise notified by the lender. All loans included on the Preclaim Request Form must have the same loan type, due date, and interest-paid-through date. Subsidized and unsubsidized Stafford loans under this section are considered the same loan type.

Preclaim Request Instructions

If a lender submits a request for preclaim assistance with any required information that is missing, incomplete, or inaccurate, the guarantor may attempt to obtain the necessary information from its own system or request the information from the lender. However, the lender must, provide the requested information or resubmit any rejected preclaim request within the time frame established by the guarantor (see “Preclaim Assistance Time Frames” in subsection 8.1.J.). If a lender is unable to provide the requested information within the guarantor’s established time frames, the loan may be subject to an interest penalty should a claim later be filed and paid.

The following chart will help lenders determine what information must be provided on the preclaim request. Detailed descriptions of these items are located in the instructions on the Preclaim Request Form.

▲ Lenders may contact individual guarantors for more information on required data elements associated with the form. See section 1.5 for contact information.

INFORMATION TO BE PROVIDED FOR PRECLAIM REQUEST

Item Description	Required[1]	If Available[2]
Type of preclaim assistance requested (i.e., SK = skip assistance request, DF = preclaim request for a borrower delinquent on monthly payments, DQ = preclaim request for a borrower delinquent on payments due less frequently than monthly).	•	
Date the preclaim request was generated.	•	
Borrower's social security number (SSN).	•	
Borrower's last name, first name, and middle initial.	•	
AKA (previous or alternative name used by the borrower).		•
Borrower's last known address.	•	
Validity of the borrower's address.		•
Address effective date.		•
Borrower's home telephone number, work number, other number, and validity of the telephone numbers.		•
Name, telephone number, and address of the borrower's place of employment.		•
Name of the last-known eligible school attended by the borrower or attended by the student for a PLUS loan.	•	
Stafford loans—the date the student is last enrolled at least half time, before any grace period and the initial conversion of the loan to repayment. PLUS/SLS loans—the date the student borrower ceased eligibility for an in-school deferment (for immediately deferred loans only). Consolidation loans and PLUS/SLS loans not immediately deferred—the latest disbursement date. For Consolidation loans, the latest disbursement date on the beginning loan balance should be used if the lender did not establish a new due date when an add-on was accomplished. If the lender did establish a new due date with the add-on loan, the disbursement date for the add-on should be provided.		•
Six or eight-digit code assigned by the Department of the last-known eligible school attended by the borrower.		•
Address and last name, first name, and middle initial of two references.	•[3]	
Validity of the references' address(es).		•
Relationship of each reference to the borrower (i.e., E = employer, F = friend, G = guardian, O = other, P = parent, R = relative, S = sibling, M = spouse, or N = not available).		•
Home telephone numbers, work numbers, other numbers, and validity of the telephone numbers for each reference.		•
Loan type for each loan identified on the preclaim request (i.e., SF= subsidized Stafford, including non subsidized prior to 10/92; SU = unsubsidized Stafford; PL= PLUS; SL = SLS; CL = Consolidation).	•	
Loan ID for each loan identified on the preclaim request (e.g., the loan identifier code, file number, guaranty date, or amount, as indicated by the guarantor).	•	
First disbursement date for each loan identified on the preclaim request, as specified in the lender's records.	•	
Current principal balance (including all reinsured and unreinsured capitalized interest) due on the date of the preclaim request for each loan identified on the preclaim request.	•	
Accrued interest due on the date of the preclaim request for each loan identified on the preclaim request.	•	
Date the loan sold (as applicable).	•	
Date on which the current servicer assumed responsibility for servicing the loan for each loan identified on the preclaim request (as applicable).	•	
Payment due date of the borrower's first unmet payment.	•	
Payment amount of the borrower's currently scheduled installment.	•	
Amount of the most recent payment received and the date received.		•
Total amount delinquent on the date the preclaim request was generated.	•	
Number of days delinquent on the date the preclaim request was generated.	•	
Total number of deferment and/or discretionary forbearance months granted to the borrower for each specific deferment or discretionary forbearance identified on the preclaim request.		•
Full name of the endorser, comaker, or PLUS student and identifying code (i.e., "E" if the individual is an endorser; "C" if the individual listed is a comaker; "S" if the individual listed is a PLUS student)	•[3]	
Endorser's, comaker's, or PLUS student's social security number.	•[3]	
Endorser's or comaker's last-known complete address and validity of the address.	•[3]	
Endorser's or comaker's home telephone number and validity of the number.	•[3]	
PLUS student's last-known complete address and validity of the address.		•
PLUS student's home telephone number and validity of the number.		•
Lender or servicer name and address. If the account is being serviced, only the servicer name and address must be provided.	•	
Lender's six-digit lender ID assigned by the Department and, as applicable, four-digit non-Department suffix.	•	
Servicer's six-digit servicer ID assigned by the Department.	•[3]	
Contact and telephone number to whom the borrower should be referred (e.g., Customer Servicer Department, Collection Department).	•	
Telephone number and name of the person or unit responsible for answering questions about information provided on the form.	•	

1 Refers to information the lender must provide on the preclaim request.

2 Refers to information the lender may or may not have. If the lender has the information it must be provided on the preclaim request.

3 Refers to information the lender is required to provide on the preclaim request with loans first disbursed on or after September 1, 1998. For disbursements prior to September 1, 1998, if the lender has the information, it must be provided on the preclaim request.

CCI 8 Delinquency, Default, and Claims

COMMON CLAIM INITIATIVE (CCI)

The Common Claim Initiative (CCI) establishes new, standard formats for lenders to use when requesting preclaim assistance and claim reimbursement. To standardize the preclaim assistance request process for lenders, the *Common Manual* guarantors have adopted a common *Preclaim Request Form* and related common policies. Effective for preclaim assistance requests filed by the lender on or after September 1, 1999, unless implemented earlier by the guarantor, a lender must use this form or an equivalent electronic format to request preclaim assistance. ***However, lenders should note that some data required on the new*** **Preclaim Request Form** ***and outlined in new section CCI 8.11*** **must** ***be collected for loans first disbursed on or after September 1, 1998, and reported for any preclaim assistance request filed by the lender in the new format.***

In addition, the *Common Manual* guarantors have developed common policies and a common form to standardize the claim filing process. The *Claim Form* is designed to permit a lender to file a claim reimbursement request in a single format with any guarantor, and to improve operational efficiencies for lenders and servicers that have relationships with more than one guarantor. The form or an equivalent electronic format must be used for all claims filed by the lender on or after March 1, 2000, unless implemented earlier by the guarantor. ***However, lenders should note that some data required on the new*** **Claim Form** ***and outlined in section CCI 8.12*** **must** ***be collected for loans first disbursed on or after September 1, 1998, and must be reported for any claim reimbursement request filed by the lender in the new format.***

CCI 8 Delinquency, Default, and Claims

COMMON CLAIM INITIATIVE (CCI)

Lenders should note that this chapter does not yet reflect guidance specific to loans made using the Master Promissory Note (MPN). The U.S. Department of Education and the FFELP community did not approve MPN-specific guidance on loan servicing, delinquency, and claims in time for the July 1999 updates of this manual.

Lenders are expected to make a good-faith effort to administer loans made under the MPN in accordance with current statute, regulations, and guarantor policies noted in this manual. Lenders are encouraged to contact individual guarantors with questions regarding the administration of loans made using the MPN.

Chapter 8 identifies the due diligence requirements and claim filing procedures to which lenders must adhere. Compliance with these requirements is crucial; failure to comply may result in an inability to collect the loan and the cancellation of the loan's guarantee.
[§682.401(b)(19)]

CCI 8.1 Required Due Diligence Activities

Due diligence activities must be performed in the following situations:

- A borrower is delinquent in making payments.
- A lender is unable to determine the location of a borrower whose loan is delinquent.
- A borrower is determined to be ineligible for a loan (due to the borrower's or student's error).

Any reference to a borrower in this chapter also refers to any applicable comaker—one of two PLUS or Consolidation loan borrowers who are held jointly and severally liable for the loan's repayment. Therefore, due diligence activities required for the borrower are also required for the comaker. See subsection 8.1.E. for more information on comaker due diligence.

The lender due diligence requirements contained in chapter 8 preempt any state law—including state statutes, regulations, or rules—that would conflict with or hinder a lender's satisfaction of the requirements or frustrate the purposes of this chapter's requirements.

CCI 8.1.A. Minimum Due Diligence Standards

Default prevention must be the goal of a lender's collection practices on its delinquent loans. The lender should develop a systematic and thorough approach to collecting on its loans. The lender may use its own consumer loan collection practices in addition to those prescribed in this chapter. Lenders are strongly encouraged to develop standards that are in the best interest of both borrowers and the FFELP. In addition, a lender must respond to any inquiry from a borrower or any endorser on a loan within 30 days of receiving the inquiry.
[§682.208(c)]

The due diligence standards outlined in this chapter are *minimum* requirements for retaining the guarantee on a loan. A lender must ensure that its collection practices meet these minimum standards and that all required due diligence activities are conducted as prescribed. Failure to meet these standards within their respective time frames may result in the rejection of a lender's claim, cancellation of the guarantee on a loan, or a reduction of the interest that would normally be paid at the time of claim purchase.

Some guarantors permit the suspension of collection activities in response to "unofficial" notification of a borrower's bankruptcy filing. These provisions are noted in appendix C.

If, at any time during collection activities, a lender learns that a borrower may be eligible for a deferment, the lender must explain the conditions for obtaining the deferment and make the deferment option available. A borrower who has not yet defaulted on his or her loan must be granted a deferment if he or she meets all applicable eligibility requirements (see subsection 7.9.D.).
[§682.210(a)(7)]

A lender may grant a deferment after a borrower has defaulted on a loan if the borrower submits the necessary deferment documentation and makes payment arrangements acceptable to the lender to resolve the default (see subsection 7.9.E.).
[§682.210(a)(8)]

A lender is encouraged to grant forbearance to a borrower or endorser who intends to repay a loan, but who is temporarily unable to make payments due to poor health or other personal problems and does not qualify for a deferment or mandatory forbearance (see subsection 7.11.A.).
[§682.211(a)]

If either the borrower or the endorser is granted a forbearance, collection activities outlined in subsection 8.1.D. must be suspended on the loan.
[DCL 96-L-186/96-G-287, Q&As #59 and #60]

CCI 8.1.B. Delinquency of Loans

A loan is considered delinquent if a payment has not been received by the day after the payment due date. A lender must ensure that the due date of the first payment is established according to the requirements described in subsection 7.4.B.
[§682.411(b)]

Applying Payments Received during Delinquency

Except for a payment received from a school (a school refund), any payment received from or on behalf of a borrower who has a delinquent loan must be applied to resolve the earliest missed payment—unless the payment is made by a comaker, cosigner, or endorser for a specific loan. If a lender's policy permits, a borrower's due date may be advanced if the payment received is within $5 of the amount due or the borrower's regularly scheduled payment amount (see subsection 7.8.A.).
[§682.411(b); DCL 96-L-186/96-G-287, Q&A #46, and May 1996 supplement to the DCL]

If a lender receives a payment that equals or exceeds the amount of a single monthly payment (which may include late charges), the lender must, unless otherwise requested by the borrower, use that payment to advance the due date on the borrower's loan at least one month, regardless of how those monies are applied to collection or late charges, principal, or interest (see subsection 7.8.B.).
[§682.209(b)]

Rolling Delinquency

A rolling delinquency occurs when the delinquent status of a loan is increased or reduced—but not completely eliminated—as the result of any of the following:

- A payment.
- The reversal of a payment (such as a nonsufficient funds check).
- The expiration of a deferment or forbearance.
- The receipt of a new out-of-school date.

> EXAMPLE
> A borrower's loan becomes 120 days delinquent. The borrower remits a payment that reduces the delinquency to 30 days delinquent. The lender must now repeat certain activities on the loan as the borrower's delinquency again increases. For example, a request for preclaim assistance must be submitted if the borrower's delinquency again reaches the level at which preclaim assistance is required (see subsection 8.1.J.).
> [§682.411(d)(3)]

A rolling delinquency affects due diligence requirements, as noted in subsection 8.1.D.

Special Occurrence

A lender's due diligence requirements may at times be affected by an event that does not change a borrower's payment due date. Such an event is known as a "special occurrence." A special occurrence results from one or both of the following:

- The lender's receipt of a valid telephone number for the borrower.
- The lender's receipt of a valid address for the borrower.

In the event of a special occurrence, the lender is required to perform all due diligence activities appropriate to the level of delinquency on the loan at the time the event occurred, as noted in subsection 8.1.D.

> EXAMPLE
> A lender receives returned mail and also discovers that it does not have a valid telephone number for a borrower whose loan is not yet delinquent. The lender chooses to perform all required skip tracing activities but fails to locate the borrower or obtain a valid telephone number. The loan subsequently becomes delinquent. No due diligence activities are required at this point, except that the lender must file a request for preclaim assistance with the guarantor. The lender then receives the borrower's valid address and a valid telephone number from the guarantor, school, or another source. A "special occurrence" has now taken place. The lender is required to perform due diligence activities applicable to the level of delinquency of the loan at the time the lender is notified of the borrower's valid address and telephone number.

CCI 8.1.C. Collection Costs and Late Charges

As permitted under federal regulations, applicable state law, and the terms of the promissory note, a lender may assess the borrower reasonable collection costs and late charges for expenses incurred in collecting a missed payment. This may include court costs and attorney fees, but may not include the costs of standard collection activities (preparing and mailing notices, making personal contacts and telephone calls, etc.). A lender may deduct allowable collection costs and late charges directly from any payment received from the borrower.
[§682.202(f) and (g)]

CCI 8.1.D. Due Diligence Schedules and Activities

To satisfy due diligence requirements, a lender must perform the collection activities specified in the following schedules. A lender may perform the required activities in the manner that is most effective—provided the minimum number of written contacts and telephone attempts are made and no gap of greater than 45 days in activity occurs. If a lender fails to complete any of the required activities within the corresponding time frame or permits a gap between activities of 46 days or more, it may incur interest penalties or jeopardize the guarantee on the loan. If the guarantee on a loan is lost, the lender also loses the right to collect interest benefits and special allowance payments otherwise payable by the Department from the date of the earliest unexcused violation.

A lender is permitted a 5-day tolerance at the end of each time frame during which due diligence activities are required. This permits the lender to perform, without penalty, some activities later than prescribed.

If a lender has a valid address for a borrower, but does not have his or her valid telephone number, the lender must make diligent attempts to obtain a telephone number (as described in subsection 8.1.H.) and continue to fulfill other due diligence requirements, such as sending letters or notices and requesting preclaim assistance in a timely manner.

If a delinquent borrower's or endorser's address is unknown, a lender must perform skip tracing activities (as described in subsection 8.1.I.) instead of normal collection activities for the individual whose address is unknown. Due diligence activities must continue for the individual whose address *is* known. If the lender initiates and exhausts its efforts to locate the borrower or endorser before the beginning of the borrower's or endorser's delinquency, the lender is not required to initiate new skip tracing activities unless a new address is obtained and the borrower or endorser subsequently becomes a skip before the date on which the final demand letter is mailed. The lender must submit another request for preclaim assistance if the borrower's loan again ages below the level at which preclaim assistance is required by the guarantor (see subsection 8.1.J.).
[DCL 96-L-186/96-G-287, Q&As #59 and #60]

For loans on which payments of interest are due, a lender may schedule a borrower for interest-only payments—if the borrower requests such payments—during in-school and grace periods, during deferment, and during forbearance for periods of required medical or dental internship. If a borrower fails to make scheduled interest-only payments, the only activities required of lenders for the period during which an interest-only payment is delinquent are those outlined in subsection 7.7.B.
[§682.202(b)(5)]

A lender also may schedule a borrower for a reduced payment forbearance. The reduced payments may or may not exceed the amount of accruing interest. If a borrower fails to fulfill his or her agreement to make the reduced payments, the lender must comply with the terms of the original forbearance agreement (capitalize interest and resume collection activity).

If the borrower fails to make interest-only payments as scheduled and his or her address is not valid, the lender need not send the notice that is otherwise required, but may capitalize the delinquent interest.

A lender may file a default claim solely on the basis of delinquent interest-only payments only if the payments are the result of an income-sensitive repayment schedule.

Due Diligence Requirements for Loans with Monthly Repayment Obligations

If a lender has a valid address and telephone number for a borrower with a monthly repayment obligation, the lender must perform the following due diligence activities within the noted time frames:

1–15 days delinquent

The lender must send the borrower at least one written notice or collection letter informing the borrower of the delinquency and urging the borrower to make payments sufficient to eliminate the delinquency. The notice or collection letter sent during this period must include, at a minimum, lender/servicer contact information and a telephone number (e.g., the name and telephone number of the customer service department). It also must include a prominent statement informing the borrower that assistance may be available if he or she is experiencing difficulty in making a scheduled repayment.
[§682.411(c)]

16–180 days delinquent

If there is no rolling delinquency and no special occurrences exist on the account, the lender must perform the following activities:

- Make at least four diligent efforts (each consisting of one successful contact or two unsuccessful attempts) to contact the borrower by telephone. At least one diligent attempt to contact the borrower by telephone must occur on or before the 90th day of delinquency, and another must occur after that date (see subsection 8.1.G.).

- Send the borrower at least four written notices or collection letters informing the borrower of the delinquency and urging the borrower to make payments. The required notices or collection letters sent during this period must include, at a minimum, information regarding deferment, forbearance, income-sensitive repayment, loan consolidation, and other available options to avoid default. At least two of the collection letters must warn the borrower that if the loan is not paid *(a)* the loan may be assigned to the guarantor, which would result in a default being reported to all national credit bureaus, and *(b)* the guarantor may offset the borrower's state and federal tax refunds and other payments made by the federal government to the borrower, garnish the borrower's wages, or assign the loan to the federal government for litigation against the borrower.
[§682.411(d)(1) and (2); DCL 96-L-186/96-G-287, Q&A #53]

If a rolling delinquency or special occurrence (see subsection 8.1.B.) exists on the account, the lender must perform the requirements applicable to the time frames noted:

- If the account is 1–15 days delinquent as a result of a rolling delinquency or at the time of a special occurrence, the lender must follow the preceding due diligence requirements for loans that subsequently become 16 days or more delinquent. These requirements must include at least four diligent efforts to contact the borrower by telephone and at least four collection letters. At least one diligent effort must be performed on or before the 90th day of delinquency and one after the 90th day of delinquency.
[DCL 96-L-186/96-G-287, Q&A #50 and #51]

- If the account is 16–90 days delinquent as a result of a rolling delinquency or at the time of a special occurrence, the lender must make two diligent efforts to contact the borrower by telephone before the 181st day of delinquency (not applicable if the borrower's telephone number is invalid). Each diligent effort must involve one successful contact or two unsuccessful attempts to contact the borrower by telephone. Please note that the requirement to perform one diligent telephone effort on or before the 90th day of delinquency does not apply. If, despite these efforts, the lender is unable to contact the borrower by telephone, the lender must send at least two forceful collection letters. If the lender's telephone efforts result in only a single contact with the borrower, the lender must send at least one forceful collection letter.
[§682.411(d)(3)(i); DCL 96-L-186/96-G-287, Q&As #50 and #51, and May 1996 supplement to the DCL]

- If the account is 91–120 days delinquent as a result of a rolling delinquency or at the time of a special occurrence, the lender must make one diligent effort to contact the borrower by telephone before the 181st day of delinquency (not applicable if the borrower's telephone number is invalid). This diligent effort must involve one successful contact or two unsuccessful attempts to contact the borrower by telephone. If, despite these efforts, the lender is unable to contact the borrower by telephone, the lender must send at least one forceful collection letter.
[§682.411(d)(3)(ii); DCL 96-L-186/96-G-287, Q&As #50 and #51, and May 1996 supplement to the DCL]

- If the account is more than 120 days delinquent as a result of a rolling delinquency or at the time of the special occurrence, no further diligent efforts to contact the borrower by telephone are required. The lender need only mail the final demand letter.
  [§682.411(d)(4)(iv)]

- The final demand letter must be mailed to the borrower, as scheduled, if the lender has a valid address for the borrower. A new final demand letter need not be mailed if the borrower remains 151 days or more delinquent and a timely final demand letter previously was mailed to the borrower and a rolling delinquency occurs or there is a special occurrence (see subsection 8.1.B.).
  [§682.411(e)]

- In all cases, no gap in collection activity greater than 45 days may exist.

Preclaim Request Period

The lender must request preclaim assistance from the guarantor within 10 days before or after the date assistance is available from the guarantor (see subsection 8.1.J.). The lender must request preclaim assistance regardless of the status of the borrower's address (valid, invalid, unknown, etc.).
[§682.411(h)]

151 or more days delinquent

The lender must mail a final demand letter to the borrower anytime the loan becomes 151 days or more delinquent. There are two exceptions to this requirement, under which the lender is excused from mailing the borrower a final demand letter:

- The loan becomes 151 days or more delinquent and the borrower's address is invalid and remains invalid after the lender has exhausted all required skip tracing activities and required diligent efforts.

- The lender previously mailed a timely final demand letter prior to a rolling delinquency or a special occurrence (see subsection 8.1.B.) and the borrower is 151 days or more delinquent.

The final demand letter must require the borrower to remit payment in full and warn that if no payment is received, the default will be reported to a national credit bureau. The lender must allow the borrower at least 30 days after the date the letter is mailed to respond to the final demand letter and to bring the loan out of default before filing a default claim on the loan.
[§682.411(e); 682.411(g)(3)]

A lender may continue the collection efforts required in the 16–180 days of delinquency after mailing the final demand letter to the borrower. However, those collection efforts should be restricted to diligent efforts to contact the borrower by telephone. Any collection effort (verbal or written) made or performed as made-up activity after the date the final demand letter is mailed must support the final demand (see subsection 8.8.C.).
[DCL 96-L-186/96-G-287, Q&A #54]

Some guarantors have additional requirements regarding collection efforts after the final demand. These requirements are noted in appendix C.

181–270 days delinquent

The lender must file a default claim with the guarantor (see subsection 8.2.A.). A lender is encouraged to file a default claim on or after the 210th day of delinquency to permit the borrower the longest possible period in which to resolve the outstanding delinquency and avert default.

Loans on which claims are filed before the 240th day of delinquency generally are eligible for special allowance payment through the date of claim payment (see subsection A.2.B. for limitations). Loans on which claims are filed beyond the 240th day of delinquency are not eligible for special allowance payment beyond the 240th day of delinquency.
[§682.302(d)(1)(iv) and (v)]

Other Requirements

No gap of 46 days or more (61 days in the case of a loan sale or transfer) may occur in collection activities. See subsection 8.8.B. of this chapter for a definition of what constitutes a gap in collection activity.
[§682.411(b)(2)]

If the borrower's address or telephone number is unknown, the lender must follow the skip tracing requirements described in subsections 8.1.H. and 8.1.I.

Due Diligence Requirements for Loans with Repayment Obligations Less Frequent Than Monthly

For a borrower with a delinquent account scheduled for repayment in installments less frequent than monthly (such as quarterly), the lender must perform the following due diligence activities within the noted time frames:

1–15 days delinquent

The lender must send the borrower at least one written notice or collection letter informing the borrower of the delinquency and urging the borrower to make payments sufficient to eliminate the delinquency. The notice or collection letter sent during this period must include, at a minimum, lender/servicer contact information and a telephone number (e.g., the name and telephone number of the customer service department). It also must include a prominent statement informing the borrower that assistance may be available if he or she is experiencing difficulty in making a scheduled repayment.
[§682.411(c)]

16–240 days delinquent

If there is no rolling delinquency and no special occurrences exist on the account, the lender must perform the following activities:

- Make at least four diligent efforts (each consisting of one successful contact or two unsuccessful attempts) to contact the borrower by telephone. At least one diligent effort to contact the borrower by telephone must occur on or before the 120th day of delinquency, and another must occur after that date (see subsection 8.1.G.).

- Send the borrower at least four written notices or collection letters informing the borrower of the delinquency and urging the borrower to make payments. The required notices or collection letters sent during this period must include, at a minimum, information regarding deferment, forbearance, income-sensitive repayment, loan consolidation, and other available options to avoid default. At least two of the collection letters must warn the borrower that if the loan is not paid *(a)* the loan may be assigned to the guarantor, which would result in a default being reported to all national credit bureaus, and *(b)* the guarantor may offset the borrower's state and federal tax refunds and other payments made by the federal government to the borrower, garnish the borrower's wages, or assign the loan to the federal government for litigation against the borrower.
  [§682.411(d)(1) and (2); DCL 96-L-186/96-G-287, Q&A #53]

If a rolling delinquency or a special occurrence (see subsection 8.1.B.) exists on the account, the lender must perform the requirements applicable to the time frames noted:

- If the account is 1–15 days delinquent as a result of a rolling delinquency or at the time of a special occurrence, the lender must follow the preceding due diligence requirements for loans that subsequently become 16 or more days delinquent. These requirements must include at least four diligent efforts to contact the borrower by telephone and at least four collection letters. At least one diligent effort must be performed on or before the 120th day of delinquency and one after the 120th day of delinquency.
  [DCL 96-L-186/96-G-287, Q&As #50 and #51]

- If the account is 16–120 days delinquent as a result of a rolling delinquency or at the time of a special occurrence, the lender must make two diligent efforts to contact the borrower by telephone before the 241st day of delinquency (not applicable if the borrower's telephone number is invalid). Each diligent effort must involve one successful contact or two unsuccessful attempts to contact the borrower by telephone. Please note that the requirement to perform one diligent telephone effort on or before the 120th day of delinquency does not apply. If, despite these efforts, the lender is unable to contact the borrower by telephone, the lender must send at least two forceful collection letters. If the lender's telephone efforts result in only a single contact with the borrower, the lender must send at least one forceful collection letter.
  [§682.411(d)(3)(i); DCL 96-L-186/96-G-287, Q&As #50 and #51, and May 1996 supplement to the DCL]

- If the account is 121–180 days delinquent as a result of a rolling delinquency or at the time of a special occurrence, the lender must make one diligent effort to contact the borrower by telephone before the 241st day of delinquency (not applicable if the borrower's telephone number is invalid). This diligent effort must involve one successful contact or two unsuccessful attempts to contact the borrower by telephone. If, despite these efforts, the lender is unable to contact the borrower by telephone, the lender must send at least one forceful collection letter.
  [§682.411(d)(3)(ii); DCL 96-L-186/96-G-287, Q&As #50 and #51, and May 1996 supplement to the DCL]

- If the account is more than 180 days delinquent as a result of a rolling delinquency or at the time of a special occurrence, no further diligent efforts to contact the borrower by telephone are required. The lender need only mail the final demand letter. [§682.411(d)(4)(iv)]

- The final demand letter must be mailed to the borrower, as scheduled, if the lender has a valid address for the borrower. A new final demand letter need not be mailed if the borrower remains 211 days or more delinquent and a timely final demand letter previously was mailed to the borrower and a rolling delinquency occurs or there is a special occurrence (see subsection 8.1.B.).

- In all cases, no gap in collection activity greater than 45 days may exist.

Preclaim Request Period

The lender must request preclaim assistance from the guarantor within 10 days before or after the date assistance is available from the guarantor (see subsection 8.1.J.). The lender must request preclaim assistance regardless of the status of the borrower's address (valid, invalid, unknown, etc.).
[§682.411(h)]

211 or more days delinquent

The lender must mail a final demand letter to the borrower if the borrower's address is known (see subsection 8.1.L.) anytime the loan becomes 211 days or more delinquent. There are two exceptions to this requirement, under which the lender is excused from mailing the borrower a final demand letter:

- The loan becomes 211 days or more delinquent and the borrower's address is invalid and remains invalid after the lender has exhausted all required skip tracing activities and required diligent efforts.

- The lender previously mailed a timely final demand letter prior to a rolling delinquency or a special occurrence (see subsection 8.1.B.) and the borrower is 211 days or more delinquent.

The final demand letter must require the borrower to remit payment in full and warn that if no payment is received, the default will be reported to a national credit bureau. The lender must allow the borrower at least 30 days after the date the letter is mailed to respond to the final demand letter and to bring the loan out of default before filing a default claim on the loan.
[§682.411(e); §682.411(g)(3)]

A lender may continue the collection efforts required in the 16–240 days of delinquency after mailing the final demand letter to the borrower. However, those collection efforts should be restricted to diligent efforts to contact the borrower by telephone. Any collection effort (verbal or written) made or performed as made-up activity after the date the final demand letter is mailed must support the final demand (see subsection 8.8.C.).
[DCL 96-L-186/96-G-287, Q&A #54]

Some guarantors have additional requirements regarding collection efforts after the final demand. These requirements are noted in appendix C.

241–330 days delinquent

The lender must file a default claim with the guarantor (see subsection 8.2.A.). A lender is encouraged to file a default claim on or after the 270th day of delinquency to permit the borrower the longest possible period in which to resolve the outstanding delinquency and avert default.

Loans on which claims are filed before the 300th day of delinquency generally are eligible for special allowance payment through the date of claim payment (see subsection A.2.B. for limitations). Loans on which claims are filed beyond the 300th day of delinquency are not eligible for special allowance payment beyond the 300th day of delinquency.
[§682.302(d)(1)(iv) and (v)]

Other Requirements

No gap of 46 days or more (61 days in the case of a transfer) may occur in collection activities. See subsection 8.8.B. of this chapter for a definition of what constitutes a gap in collection activity.
[§682.411(b)(2)]

For the remainder of this chapter, all references to time periods refer to loans with a monthly repayment obligation, unless otherwise noted.

CCI 8.1.E. Comaker and Endorser Due Diligence Schedules and Activities

Comaker Due Diligence

For a loan on which there are comakers (two borrowers who are jointly and severally liable for the loan's repayment), each due diligence activity must be performed for each borrower. For example, if the lender is required to send a letter at a certain point of delinquency, it must send the same letter to both borrowers. Failure to perform collection activities on one or both comakers is a violation of due diligence provisions and will result in interest penalties or the loss of the loan's guarantee.

Endorser Due Diligence

The following collection efforts must be performed for any endorser (sometimes referred to as cosigner) on a borrower's loan. An endorser is an individual who signs the borrower's promissory note, or completes an endorser addendum in the case of a PLUS loan, and agrees to be secondarily liable for the debt. Endorser due diligence may be performed concurrently with borrower due diligence.

A diligent effort to contact an endorser may be used to satisfy both an endorser due diligence requirement and a borrower skip tracing requirement, provided the activity is documented as both in the lender's servicing history. If the endorser is reached, the lender must discuss both the delinquency of the loan and the endorser's obligation to repay the debt and must ask about the borrower's location and telephone number.

An endorser may be released from his or her repayment obligation on a loan in any of the following cases:

- A release is provided in writing before the loan becomes delinquent, and the endorser was not obtained due to a PLUS loan borrower's adverse credit.
- The borrower dies or, on or after July 23, 1992, the student for whom a parent received a PLUS loan dies.
- The endorser dies, and the lender receives evidence of the endorser's death, such as a copy of the death certificate or other proof of the endorser's death that is acceptable under applicable state law.
- At the discretion of the guarantor.

Some guarantors have additional requirements regarding the release of endorsers. These requirements are noted in appendix C.

During the delinquency period, the lender must *(a)* make at least one diligent effort (consisting of one successful contact or two unsuccessful attempts) to contact the endorser by telephone, and *(b)* send the endorser at least two collection letters advising him or her of the loan's past due status and urging the endorser to resolve the delinquency. At least one of the letters must warn the endorser of the consequences of default, as described under the "16–180 Days Delinquent" subheading in subsection 8.1.D.
[§682.411(m)]

If a "rolling delinquency" exists on the account and the account rolls forward (becomes more past due) late in delinquency, the lender is required to complete the endorser due diligence activities. The endorser must be given notice of the severe delinquency and ample opportunity to honor the debt before the loan is paid as a default claim.
[DCL 96-L-186/96-G-287, Q&As #59 and #60]

In addition, the lender must mail the endorser a final demand letter on or after the 151st day of delinquency, as specified in subsection 8.1.L. The endorser must be permitted at least 30 days to comply with the terms of the final demand letter before a claim may be filed on the loan.
[§682.411(m)(2)]

If all required collection activities have not been performed for the endorser, the claim file will be returned to the lender, and the lender will be required to perform any missed activities before the claim will be purchased. The lender must resubmit the claim file within the applicable claim refiling time frames (see subsection 8.4.A.). If the required activity is made up and the claim is resubmitted in a timely manner, no violation will be assessed.
[§682.406(a)(3); §682.411(m); December 18, 1992, *Federal Register* comments on §682.411]

CCI 8.1.F. Written Notices and Collection Letters

All written notices and collection letters sent to a borrower should include the lender's or servicer's address and telephone number. The notices and letters should instruct the borrower to contact the lender or servicer to resolve the delinquent status of his or her loan. When sending collection letters, the lender must use language consistent with the guidelines provided in federal regulations (see subsection 8.1.D.).
[§682.411(d)(2)]

CCI 8.1.G. Diligent Efforts to Contact Borrower by Telephone

When required to make diligent efforts to contact the borrower by telephone, the lender must do so periodically through the date of default.

Federal regulations define a diligent effort as any one of the following:

- One successful telephone contact with the borrower.
- At least two unsuccessful attempts to contact the borrower by telephone at a number that the lender reasonably believes to be the borrower's valid telephone number.
- An unsuccessful effort to obtain the valid telephone number for a borrower—including, but not limited to, a directory assistance inquiry as to the borrower's telephone number—and a diligent effort to contact each comaker, endorser, reference, relative, individual, or entity identified on the borrower's most recent application and promissory note for a loan held by the lender. For more information on skip tracing to obtain a valid telephone number, see subsection 8.1.H.
[§682.411(l)]

If a borrower calls or meets with the lender and the delinquency is discussed, the requirement to contact the borrower is satisfied. The contact must be noted in the borrower's file or the servicing history of the loan.

A lender must act on any information it receives. If, while attempting to reach the borrower, the lender is advised that the borrower can be reached at another telephone number or at another time of day, the lender must make an additional attempt to call the borrower at that number or at that time of day.

A lender is not required to make diligent efforts to contact a borrower by telephone in the following cases:

- The borrower resides outside a state, Mexico, or Canada.
- The borrower is incarcerated.
- The borrower's telephone number is invalid, and all required skip tracing activities have been performed.
- The lender is advised that the borrower has no telephone number or that there is no telephone service in the general geographic area in which the borrower lives, and the lender verifies and documents this in the borrower's file or the servicing history of the loan.

In the last two of the preceding cases, the lender may—but is not required to—send one letter in place of each of the otherwise required efforts to contact the borrower by telephone. However, in the case of a borrower who is incarcerated or who resides outside a state, Mexico, or Canada, a lender that chooses not to contact the borrower by telephone must substitute a forceful collection letter for each of the four diligent efforts to contact the borrower by telephone. This would result in a total of eight letters, in addition to the final demand letter, between the 16–180 days of delinquency (four letters in the delinquency series and four replacing the telephone efforts).
[§682.411(d)(4); §682.411(a); DCL 96-L-186/96-G-287, Q&A #45]

CCI 8.1.H. Telephone Skip Tracing Requirements

If a lender discovers that it does not have a valid telephone number for a delinquent borrower, the lender must attempt to obtain the borrower's number using all available resources, including the following:

- Inquiring of directory assistance or a comparable service to obtain the borrower's number.
- Sending a letter or making a diligent effort (one contact or two unsuccessful attempts) to contact by telephone each comaker, endorser, reference, relative, individual, or entity identified on the most recent loan application and promissory note held by the lender for that borrower.
- Contacting the financial aid administrator or other school official who may reasonably be expected to know the borrower's address. [§682.411(l)(1)(iii)]

If any address skip tracing activities have been performed when the lender becomes aware of an invalid telephone number for the borrower, the lender need not repeat these activities when performing remaining telephone skip tracing. These activities will be considered to have been already completed for telephone skip tracing.

A lender is required to perform telephone skip tracing activities only when the borrower is delinquent for a regularly scheduled payment and the lender becomes aware—even on the last required attempt to make a "diligent effort" to contact the borrower (see subsection 8.1.D.)—that the telephone number on file is invalid. If all four required diligent efforts to contact the borrower by telephone have been completed and the lender subsequently becomes aware that it does not have a valid telephone number for the borrower, the lender is not required to perform telephone skip tracing activities. A lender is encouraged to perform skip tracing activities at any time a telephone number is found to be invalid. If the lender performs a thorough skip tracing effort before the borrower's account becomes delinquent, it is not required to repeat those activities as a part of due diligence unless a valid telephone number is confirmed and then becomes invalid again.
[DCL 96-L-186/96-G-287, Q&A #61]

If the lender chooses to perform skip tracing during a period of grace, deferment, forbearance, or current repayment, no violations or gaps will be monitored. However, if some—but not all—required skip tracing activities are completed during such periods, remaining skip tracing must be performed if the account becomes delinquent. The next skip tracing activity must occur within 45 days of the borrower's first day of delinquency, and the remaining skip tracing must be completed with no gap greater than 45 days between activities and/or default.

The lender may attempt to contact each reference by letter or telephone. If the telephone number listed for a reference is invalid, the lender must attempt to obtain a valid telephone number for the reference. The lender may satisfy this requirement by calling directory assistance. If a telephone number is obtained from directory assistance, the lender must attempt to call the reference.

If the lender learns that a reference on the borrower's most recent loan application does not know the borrower's current whereabouts and does not anticipate contact with the borrower in the future, or is not acquainted with the borrower, the lender must note this information in the loan's servicing history. The lender is not required to contact that reference again in the course of subsequent skip tracing efforts unless the lender has reason to believe that the earlier response was erroneous or that the reference now has valid or complete borrower information. If a lender determines that a reference should no longer be contacted, but the lender is required to perform telephone skip tracing activities on the same borrower at a later date, the lender is strongly encouraged to contact a reference from another loan application in the borrower's file, if one is available.

If the lender has fulfilled the requirements described in the preceding paragraphs but has not succeeded in obtaining the borrower's telephone number, the lender is not required to continue attempts to call the borrower—unless updated telephone information is received before the 120th day of delinquency.
[§682.411(1)(2)]

If the lender obtains a valid telephone number for a borrower, it must resume the diligent efforts to contact the borrower by telephone that are applicable to the level of delinquency of the loan at the time the lender is notified of the borrower's valid telephone number (see subsection 8.1.D.).

During the period the lender is attempting to obtain a valid telephone number for the borrower, the lender must send all required collection letters. The lender may cease sending such letters only if it determines that the borrower's address is invalid, in which case the lender must perform address skip tracing (see subsection 8.1.I.).

A preclaim assistance request must be generated at the appropriate delinquency level, as determined by the guarantor for the loan (see subsection 8.1.J.).

Endorser Telephone Skip Tracing Requirements

If a lender determines that it does not know the current telephone number for a delinquent endorser, the lender must diligently attempt to locate the endorser through the use of normal commercial skip tracing techniques. This effort must include an inquiry to directory assistance or a comparable service. If the lender determines that the endorser's telephone number is incorrect after it sends the final demand letter, skip tracing activities are not required.

CCI 8.1.I. Address Skip Tracing Requirements

If a lender determines that it does not know the current address for a borrower whose loan is delinquent (for example, as a result of a telephone conversation with a reference or receipt of returned mail) the lender must, within 10 days of making the determination, begin attempting to locate the borrower using normal commercial skip tracing techniques. These skip tracing requirements must be satisfied each time the borrower is considered a "skip." Therefore, if a borrower moves after he or she is located by the lender, and the lender is unable to locate the borrower again, the lender must repeat its skip tracing activities. All attempts to locate the borrower must be documented in the borrower's file or in the servicing history of the loan. In addition, if any telephone skip tracing activities have been performed when the lender becomes aware of an invalid address for the borrower, the lender must initiate additional address skip tracing activities within 10 days of making the determination that it does not have a valid address for the borrower, but need not repeat any activities already completed when performing remaining address skip tracing activities.
[§682.411(g)]

During the performance of address skip tracing activities, the lender must continue to make diligent efforts to contact the borrower by telephone. The lender may cease making such calls only if it determines that the borrower's telephone number is invalid, in which case the lender must also perform telephone skip tracing (see subsection 8.1.H.).

The lender is not required to perform skip tracing activities if either of the following criteria apply:

- The lender determines that the address is invalid after it has mailed a timely final demand letter.
- The borrower's loan becomes 151 days or more delinquent (211 days or more delinquent for loans payable in installments less frequently than monthly) as a result of the reversal of a payment, provided a timely final demand letter has previously been mailed.

In the case of a loan transfer that occurred within 10 days of the date the lender learned that it did not know the location of the borrower, the new lender will have an additional 15 days added to this 10-day time frame to initiate skip tracing activity for a borrower whose loan is delinquent.
[DCL 96-L-186/96-G-287, Q&A #49]

If a borrower's loan is not delinquent or has not yet been converted to repayment, the lender is encouraged to initiate skip tracing activities rather than delaying them until the loan becomes delinquent. Some guarantors provide skip tracing assistance for loans that are not delinquent (see subsection 8.1.J.). If the lender completes a thorough skip tracing effort before a borrower becomes delinquent, it is not required to perform skip tracing again unless a good address is received and the borrower becomes a "skip" before the final demand letter is mailed.
[§682.208(g)]

If the lender chooses to perform skip tracing during a period of grace, deferment, forbearance, or current repayment, no violations or gaps will be monitored. However, if some—but not all—required skip tracing activities are completed during such periods, remaining skip tracing must be performed. The next skip tracing activity must occur within 45 days of the borrower's first day of delinquency, and the remaining skip tracing must be completed with no gap greater than 45 days between activities and/or default.

If the lender learns that a reference on a loan application in the borrower's file does not know the borrower's current whereabouts and does not anticipate contact with the borrower in the future, or is not acquainted with the borrower, the lender must note this information in the loan's servicing history. The lender is not required to contact that reference again in the course of subsequent skip tracing efforts, unless the lender has reason to believe that the earlier response was erroneous or that the reference now has valid or complete borrower information.

A lender's address skip tracing efforts must include, but are not limited to, sending a letter to or making a diligent effort (consisting of one successful contact or two unsuccessful attempts) to contact by telephone each comaker, endorser, relative, reference, individual, and entity (any prior holders of the loan, the school's alumni or financial aid office, etc.) identified in the borrower's file and other normal commercial skip tracing activities that the lender would conduct in pursuit of information on any other loan in its consumer loan portfolio. Lenders must perform at least two additional normal commercial skip tracing activities but are encouraged to pursue all available sources of information to obtain a valid address. All skip tracing activities must be completed by the date of default, with no gaps of more than 45 days between activities.
[§682.411(g)]

A lender is not considered to be exercising reasonable care and due diligence if it mails a series of letters or notices to the address at which it has determined that the borrower no longer resides.

Although sending a collection letter to the borrower in care of the references—or to the borrower at the reference's address—may be an effective due diligence technique, such an action does not meet the Department's definition of a skip tracing activity. A letter sent to the borrower in care of the reference—or to another person such as a comaker or endorser—may not be substituted for a required attempt to directly contact the borrower by telephone or to satisfy a requirement to send a letter to the borrower.

If a lender obtains a valid address for a borrower on or before the 150th day of delinquency (the 210th day for loans payable in installments that are less frequent than monthly), it must resume the appropriate due diligence activities (see subsection 8.1.D.). If, after determining the borrower's valid address, the lender still does not have a valid telephone number for the borrower, telephone skip tracing should be performed (see subsection 8.1.H.).
[§682.411(f); §682.411(g)(3)]

Endorser Address Skip Tracing Requirements

If a lender determines that it does not know the current address for a delinquent endorser, the lender must diligently attempt to locate the endorser through the use of normal commercial skip tracing techniques. This effort must include an inquiry to directory assistance or a comparable service. If the lender determines that the endorser's address is invalid after it mails the final demand letter, skip tracing activities are not required.
[§682.411(m)(3)]

The lender is strongly encouraged to initiate skip tracing activities on the endorser, even if he or she is not delinquent, if the endorser's address becomes invalid during the forbearance period.
[DCL 96-L-186/96-G-287, Q&As #59 and #60]

CCI 8.1.J. Preclaim Assistance

Preclaim assistance enables a guarantor to supplement a lender's efforts to prevent default on a borrower's loan. Preclaim assistance in no way replaces the lender's responsibilities to perform due diligence. If the lender fails to continue required due diligence while the guarantor is providing assistance, interest penalties or a loss of guarantee on the loan may result.

Preclaim assistance is collection assistance provided to a lender by a guarantor. It involves the initiation by the guarantor of at least three collection activities, including at least one letter to the borrower, that are designed to encourage the borrower to begin or resume repayment.
[§682.404(a)(2)(ii)]

A lender must submit a complete and accurate request for preclaim assistance within a period that begins 10 days before and ends 10 days after the date established by the guarantor of the delinquent loan. This time frame is referred to as the preclaim request period. In absence of evidence to the contrary, the guarantor will monitor timely preclaim submission based on the lender's collection history. The lender must request preclaim assistance through the Preclaim Request Form (see section CCI 8.11 and appendix F) or an equivalent electronic format. In the case of a delinquent borrower whose address is invalid, the lender's request for preclaim assistance should also indicate that the borrower is a "skip."
[§682.411(h)]

If a request for preclaim assistance is submitted after the 5th day following the preclaim request period, the request will be accepted and assistance will begin, but a due diligence violation of more than 5 days will have occurred. If a delinquency is accelerated based on a payment being returned due to nonsufficient funds, a penalty may not be assessed. If the lender fails to file a request by the 240th day, it will not be entitled to receive interest, interest benefits, and special allowance for the 180 days immediately preceding the date on which the loan defaulted.
[§682, Appendix D]

If the lender has received a Notice of the First Meeting of Creditors (the Notice) or other confirmation from the bankruptcy court (directly either from the court or from another source) that a borrower has filed for relief under any chapter of the bankruptcy code, the lender must cease collection activities and may not submit a preclaim assistance request to the guarantor. Further, if the lender has already requested preclaim assistance and receives notice of any bankruptcy action, the lender must immediately, within 5 business days of the lender's receipt of the Notice, notify the guarantor to cancel preclaim activities based on a bankruptcy action filed on the borrower's loans. If the lender requests preclaim assistance on a loan on which it has received notice of a bankruptcy action or if the lender fails to timely notify the guarantor, within 5 business days, to cease collection activity on a loan on which preclaim assistance was previously requested, the result will be permanent cancellation of the guarantee on the loan at issue based solely on whether the lender's failure to comply with these provisions results in the court's determining the loan to be unenforceable. Further, the lender will be required to reimburse the guarantor for costs associated with defending itself against contempt of court charges on the account if those charges are based solely on the lender's failure to comply with these provisions and can be demonstrated accordingly.

In the event the lender receives notice that the bankruptcy action has ended and the loan remains enforceable—and the loan was deemed nondischargeable, the bankruptcy case was dismissed, or the discharge was reversed—the lender must treat the loan as though it were in forbearance. Any accrued interest should be capitalized from the date of the bankruptcy petition to the date the lender received notification that the bankruptcy action was concluded. The lender may also include in the administrative forbearance any period before the date of the bankruptcy petition for which the borrower was delinquent, as outlined in subsection 8.2.D., and bring the loan current. If, however, the lender permits a period of delinquency to remain on the loan, and that delinquency is beyond the period when a request for preclaim assistance would have been generated, the lender must request preclaim assistance from the guarantor not later than 10 days from the date on which the lender receives notice that the stay on collection activities has been lifted. If the loan was purchased as a claim by the guarantor and subsequently repurchased and brought current by the lender, the request for preclaim assistance must be made within the appropriate time frame, as outlined in this subsection.

A guarantor's preclaim assistance ends when the delinquency on the loan has been satisfactorily resolved. The lender must notify the guarantor as soon as the delinquency on the loan is reduced below the preclaim cancellation date—preferably through the regular submission of the appropriate guarantor's reports.

A new request for preclaim assistance must be submitted if a previously submitted request has been satisfactorily resolved and the delinquency of the loan again reaches the point at which the lender must request assistance. If, after the lender has submitted a request to the guarantor, the borrower makes payments—but the payments are not sufficient to bring his or her loan(s) to less than the preclaim cancellation date—it is not necessary to submit a new request. However, the lender may be required to keep the guarantor informed of any changes in the delinquency status of the loan—even if the delinquency is not reduced below the point at which the guarantor requires preclaim assistance to be canceled. In addition, the lender must report the effective date of the change that reduced the borrower's delinquency in a form acceptable to the guarantor.

The table on the following page lists the time frames applicable to several aspects of preclaim assistance.

Some guarantors have additional requirements regarding the filing, timing, and suspending of requests for preclaim assistance. These requirements are noted in appendix C.

CCI 8.1.K. Supplemental Preclaim Assistance

Supplemental preclaim assistance is collection assistance provided to the lender by the guarantor and involves the initiation by the guarantor of at least two collection activities designed to encourage the borrower to begin or resume payment. The guarantor will initiate supplemental preclaim assistance on or after the 120th day of delinquency.
[§682.404(a)(2)(iii)]

PRECLAIM ASSISTANCE TIME FRAMES

Guarantor	Preclaim Request Period[1]	Preclaim Cancellation Date[2]	Skip Preclaim Assistance Available[3]	Deadline for Refiling Rejected Preclaim[4]	Updated Preclaim Delinquency Date[5]
American Student Assistance	80–100	60	80–100	10	None
California Student Aid Commission/EdFund	60–80	0	60–80	45	None
Colorado Student Loan Program	60–80	0	None	30	Any Change
Connecticut Student Loan Foundation	65–85	30	All	None	Any Change
Education Assistance Corporation	60–80	0	60–80	None	Any Change
Educational Credit Management Corporation	60–80	0	All	15	Any Change
Finance Authority of Maine	60–80	0	60–80	30	Any Change
Florida Department of Education	60–80	0	All	30	Any Change
Georgia Higher Education Assistance Corporation	60–80	0	After 60	30	Any Change
Great Lakes Higher Education Guaranty Corporation	60–80	0	60–80	30	Any Change
Illinois Student Assistance Commission	80–100	30	All	30	None
Iowa College Student Aid Commission	60–80	0	All	None	Any Change
Kentucky Higher Education Assistance Authority	60–80	30	All	30	None
Louisiana Student Financial Assistance Commission	60–80	0	Anytime	15	Any Change
Michigan Higher Education Assistance Authority	60–80	0	All	None	Any Change
Missouri Student Loan Program	60–80	0	60–80	30	Any Change
Montana Guaranteed Student Loan Program	65–85	0	All	None	Any Change
NSLP, Inc.	60–80	0	60–80	30	Any Change
New Hampshire Higher Education Assistance	60–80	60	None	None	Any Change
New Jersey Higher Education Student Assistance Authority	50–70	0	All	10	Any Change
New Mexico Student Loan Guarantee Corporation	60–80	0	All	30	Any Change
North Carolina State Education Assistance Authority	50–70	60	All	None	Any Change
Northwest Education Loan Association	60–80	0	All	None	None
NYS Higher Education Services Corporation	60–80	61	All	30	Any Change
Oklahoma State Regents for Higher Education	60–80	0	All	30	Any Change
Oregon State Scholarship Commission	60–80	1	60–80	30	Any Change
Pennsylvania Higher Education Assistance Agency	60–70	0	All	N/A	Any Change
Rhode Island Higher Education Assistance Authority	60–80	0	None	30	Any Change
South Carolina Student Loan Corporation	50–70	0	All	None	Any Change
Student Loan Guarantee Foundation of Arkansas	60–80	0	All	30	Any Change
Student Loans of North Dakota	70–90	30	All	10	Any Change
Tennessee Student Assistance Corporation	60–80	0	60–80	45	Any Change
Texas Guaranteed Student Loan Corporation	80–100	80	All	None	Any Change
United Student Aid Funds, Inc.	60–80	0	60–80	30	Any Change
Utah Higher Education Assistance Authority	60–80	0	Any	None	Any Change
Vermont Student Assistance Corporation	50–70	60	None	None	None

1 The period of time (expressed in number of days delinquent) established by a guarantor for a lender to request preclaim assistance. If preclaim assistance is not requested during this time period, the loan may be subject to an interest penalty if a claim is later filed and paid.

2 If the delinquency date falls below this number of days delinquent, the lender must notify the guarantor to cancel the request for preclaim assistance.

3 The period of time (expressed in number of days delinquent) established by a guarantor in which a lender may request skip tracing from the guarantor. An entry of “All” or “Any” specifies that skip preclaim assistance is available throughout the life of a loan. An entry of “None” specifies that the guarantor does not offer skip preclaim assistance.

4 The deadline (expressed in number of calendar days from the date the lender receives the rejected preclaim assistance) established by a guarantor for the lender to refile the request for preclaim assistance that has been rejected by the guarantor. An entry of “None” specifies that the guarantor has no time constraints for refiling the request by the lender.

5 Indicates whether or not the guarantor must be informed of any changes in the delinquency status of the loan, even if the delinquency is not reduced below the point at which the guarantor requires preclaim assistance to be canceled. An entry of “None” specifies that the guarantor does not require an update on the preclaim delinquency date.

CCI 8.1.L. Final Demand Letter

A final demand letter must be mailed to a delinquent borrower and any endorser in accordance with the requirements outlined in subsection 8.1.D. The final demand letter must require repayment of the loan in full and must warn that a default (due to failure to respond to the demand) will be reported to a national credit bureau. The lender must allow the borrower and/or endorser at least 30 days after the date the letter is mailed to respond to the letter before filing a default claim on the loan.
[§682.411(e)]

If it is determined that a borrower was ineligible for his or her loan, separate requirements for the final demand letter apply (see the following subsection 8.1.M.).

CCI 8.1.M. Ineligible Borrower Due Diligence

If a borrower was responsible for his or her ineligibility for all or a portion of a loan, the due diligence requirements outlined in this subsection apply. However, if it is determined that a borrower is ineligible for a loan due to a school's or lender's error, the borrower should not be penalized, nor should the lender file a claim on the loan. For information on determining which party is responsible for a borrower's ineligibility, see section 7.12.

The lender must—within 60 days of determining that a borrower is ineligible for a loan due to his or her own error—mail a final demand letter to the borrower. This letter must require the borrower to repay:

- The full principal amount of the ineligible portion of the loan.
- All outstanding accrued interest on the ineligible portion of the loan.
- Any interest benefits paid on the ineligible portion of the loan.
- Any special allowance originally billed by the lender or paid by the Department on the ineligible portion of the loan.

Some guarantors have more specific requirements regarding when a final demand letter must be mailed. These requirements are noted in appendix C.

The lender must refund to the Department interest benefits on the ineligible portion of the loan, regardless of whether they were repaid by the borrower. If the borrower repays the amount of special allowance on the ineligible portion, the lender must forward the funds to the Department.
[§682.412]

An ineligible borrower must be allowed at least 30 days after the date the final demand letter is mailed to respond. If, at the end of the 30-day time frame, the borrower fails to comply with the terms of the final demand letter, the lender must:

- Treat the loan as though it were in default. The entire loan is considered defaulted—even if the borrower was ineligible for only a portion of it.
- Cancel any pending disbursement(s).
- Refund all interest benefits paid on the ineligible portion of the loan.
- File an ineligible borrower default claim for the entire loan amount after the 30th and before the 120th day from the date the final demand letter is mailed (see subsection 8.2.F.).
  [§682.412(e)]

If the borrower responds to the final demand letter by repaying less than the entire amount demanded, the lender must treat such a payment as a prepayment against the loan. The lender must file an ineligible borrower default claim for the remaining balance on the loan.

If the borrower repays the full amount demanded, the lender must refund to the Department, on its next quarterly ED Form 799, all interest benefits and special allowance payments paid by the Department on the ineligible portion of the loan. The lender must resume servicing any eligible portion of the loan.
[§682.412(d)]

CCI 8.2 Claim Types

To be reimbursed for loss on a loan due to the borrower's default, death, disability, bankruptcy filing, ineligibility for the loan, or situations involving school closure or false certification, the lender must submit a claim according to the procedures and deadlines outlined in the following subsections. Additional claim filing requirements are outlined in section 8.3.
[§682.402]

If a PLUS loan was obtained by two parents as comakers or a Consolidation loan was obtained by a married couple and one of the borrowers is eligible for discharge, the other borrower remains obligated to repay the loan. However, if each comaker on a loan meets the eligibility criteria for a discharge—under the same type or a different discharge type—discharge can be granted on the loan.

CCI 8.2.A. Default Claims

A lender is strongly encouraged to file a default claim after the 210th day of delinquency for a loan with monthly installments. A default claim may not be filed before the 180th day or after the 270th day of delinquency for loans with installments due monthly.

For a loan with installments due less frequently than monthly (e.g., quarterly), a lender is strongly encouraged to file a default claim after the 270th day of delinquency. A default claim may not be filed before the 240th day or after the 330th day of delinquency for loans with installments due less frequently than monthly.

Payments after Default

If the lender receives a payment from or on behalf of the borrower before the date it files a default claim, the payment must be accepted and applied to the loan to reduce the delinquency or eliminate the default.

If the lender receives a payment after a default claim has been filed but before the claim has been purchased, the lender must determine whether the claim should be recalled (see section 8.5). If the claim is not recalled, the payment should be held until the claim payment is received and then forwarded to the guarantor within 30 days of receiving the claim payment.

Some guarantors require a lender to apply a payment upon receipt in the preceding circumstances. These requirements are noted in appendix C.

A payment received after a default claim has been purchased must be forwarded to the guarantor for processing within 30 days of receipt. The payment should be clearly marked as a borrower payment(s) received before claim payment.

Interest-Only Claims

Because guarantors permit a lender to accrue or capitalize outstanding interest on FFELP loans whenever the borrower fails to fulfill his or her agreement to make interest-only payments during a period of deferment or forbearance, a lender may not file a claim solely on the basis of the missed interest-only payments. A default claim based solely on delinquent interest-only payments may be filed only when those payments are the result of income-sensitive repayment schedules.
[§682.202(b); DCL 90-G-175]

Forwarding Documentation of Other Claim Types

To ensure that another claim type is not inadvertently purchased as a default claim, the lender must forward to the guarantor—within 30 days of receipt—any acceptable notification (including all supporting documentation) that demonstrates that any of the following situations have occurred:

- The borrower died or the student for whom a PLUS loan was obtained died.
- The borrower became totally and permanently disabled.
- The borrower filed any type of bankruptcy.
- The borrower should have been declared ineligible for the loan.
- The borrower was entitled to loan forgiveness due to the school closing or false certification.

The guarantor may alter the original claim type to reflect the new status, if applicable.

If a lender receives information indicating that a borrower has filed a bankruptcy petition on the loan, the lender should follow the additional instructions outlined in subsection 8.2.D.

Timely Filing Deadline for Default Claims

The last day a lender may file a default claim and remain within the timely filing guidelines for a loan with monthly installments is the 270th day of delinquency. For a delinquent account scheduled for repayment in installments less frequent than monthly (e.g., quarterly), the lender must file the default claim by the 330th day of delinquency. Failure to submit a default claim by the 270th day, or 330th day if applicable, will result in a timely filing violation and the cancellation of the guarantee on the loan.
[§682.406(a)(5)]

A lender may attempt to cure a timely filing violation; if successful, the lender is entitled to resubmit the claim (see subsection 8.8.J.). However, the claim will be subject to an interest penalty, and the lender will be required to repay all interest benefits and special allowance payments for amounts received or otherwise payable after the 240th day of delinquency.

CCI 8.2.B. Death Claims

If a borrower dies, his or her loan is discharged. In the case of a PLUS loan, if the dependent student for whom a parent obtained a PLUS loan dies on or after July 23, 1992, the borrower's loan is discharged. Any endorser is released from his or her repayment obligation upon discharge of the borrower's loan.
[§682.402(b)]

If a loan is made to two borrowers as comakers, the loan is dischargeable as a death claim only if both borrowers have died or if one borrower has died and the other borrower has had his or her obligation to repay the loan discharged on another basis (such as bankruptcy or total and permanent disability). If only one comaker has his or her obligation discharged, the other comaker is obligated for repayment of the remaining loan balance.

If there have been servicing errors on a loan such that the loan has lost its guarantee, those violations must have been cured before the date the lender determines that the borrower or dependent student died. If the violations were not cured before the date of the death, the lender must discharge the loan—even though the balance will not be reimbursed by the guarantor.
[§682, Appendix D]

Suspending Collection

If a lender receives what it believes to be reliable but unofficial notification of a borrower's or student's death, the lender must suspend any due diligence activities on the loan for up to 60 days and diligently attempt to obtain a copy of the death certificate or other proof of death acceptable under applicable state law. If documentation is not received by the 60th day, the lender should treat the loan as if a forbearance had been granted during this 60-day period. A signed forbearance agreement is not required after this period. The delinquency status, if any, that existed on the loan before the lender suspended its due diligence remains. The lender must resume due diligence immediately at the level of delinquency at which it was suspended.
[§682.402(b)(3)]

After receiving a borrower's or student's death certificate or other proof of death acceptable under applicable state law, the lender may not attempt to collect on the loan from the borrower, the borrower's estate, or any endorser.

Treatment of Payments

Payments received from the borrower or the borrower's estate or paid on behalf of the borrower after the date of the borrower's or student's death must be returned to the sender. If payments are received and the lender has no indication of an address or party to which payments may be returned, the lender may apply those payments to the loan, but must document the special circumstances. The lender may capitalize the outstanding accrued interest for the period represented by payments that were made but subsequently returned.
[§682.402(b)]

Timely Filing Deadline for Death Claims

A lender must file a death claim within 60 days of receiving a death certificate or other proof of death acceptable under applicable state law.

If a death claim is not filed by the 60th day, the guarantor will still purchase the claim—unless the lender incurred due diligence or timely filing violations that were not cured before notification of the borrower's death and the violations were based on an earlier delinquency and resulted in cancellation of the guarantee on the loan. However, a

death claim purchased after the 60th day will be subject to an interest penalty, and the lender will be required to repay all interest benefits and special allowance payments for amounts received or otherwise payable after the expiration of the 60-day filing deadline.
[§682.402(g)(2)(i)]

CCI 8.2.C. Total and Permanent Disability Claims

If a borrower claims to be totally and permanently disabled, the lender must request that the borrower (or the borrower's representative if the borrower is unable to do so) provide certification of the disability from a physician. The borrower or the borrower's representative must have a completed Physician's Certification of Borrower's Total and Permanent Disability or other form approved by the Department. The certification must include the date the borrower became unable to work or attend school. The lender must continue collection activity until the certification is received—or until a letter from the physician is received requesting additional time to determine whether the borrower is totally and permanently disabled.
[§682.402(c)(2)]

Suspending Collection

If the lender receives a letter from the borrower's physician requesting additional time to make a determination, the lender must suspend collection activity on the loan for up to 60 days or until the certification is received, whichever is earlier. If the certification is not received by the end of the 60-day period, the lender should treat the loan as though forbearance had been granted during this period. A signed forbearance agreement is not required for this administrative forbearance period. The delinquency status, if any, that existed on the loan before the lender suspended its due diligence remains. The lender must resume due diligence immediately at the level of delinquency at which it was suspended. For more information on the use of administrative forbearance in conjunction with the lender's receipt of a physician's request for additional time, see subsection 7.11.B.
[§682.402(c)(4)]

Treatment of Payments

After a lender receives a disability claim payment from the guarantor, the lender must return to the sender any payments received from or on behalf of a borrower after the date the borrower became totally and permanently disabled, as certified by a physician.

When submitting a request for total and permanent disability claim payment, the lender must calculate the principal balance as of the date the borrower became totally and permanently disabled, as certified by a physician, by adding back to principal the amount applied to principal from payments received on or after that date. The lender must increase the principal amount of the claim based on that calculation. The lender may request interest for the period represented by payments that will be subsequently returned to the sender upon receipt of the claim payment. This interest should *not* be capitalized, but treated as accrued interest by adjusting the interest-paid-through date to reflect removal of the payments that will be returned to the sender. Lenders are not required to adjust interest that had been previously capitalized. The lender must provide these computations on the Claim Form (see appendix F for a copy of the Claim Form).

Within 30 days of the lender's receipt of the disability claim payment from the guarantor, the lender must return the payments to the sender and notify the borrower that there is no obligation to repay the loan(s) discharged on the basis of disability. If the identity of the sender is unknown (for example, a cash payment was received), the lender must return payments to the borrower. The lender should document the return of payments in the borrower's file. The lender is strongly encouraged to notify the borrower that the loan has been discharged, even if no payments were made after the date the borrower became totally and permanently disabled.
[§682.402(c)(3)]

Discharging the Loan

If a doctor of medicine or osteopathy certifies that the borrower is totally and permanently disabled, the borrower's obligation to repay the loan is canceled. For these purposes, a borrower is considered totally and permanently disabled if he or she is unable to work and earn money or attend school because of an injury or illness that is expected to continue indefinitely or result in death. A borrower is not considered totally and permanently disabled on the basis of a condition that existed before he or she applied for the loan (the date the borrower signed the application and promissory note), unless that condition has substantially deteriorated to the point of total and permanent disability since the borrower applied for the loan. In this situation, the borrower should ensure that the physician clearly notes that the condition became total and permanent after the date on which the borrower applied for the loan.

For a Consolidation loan, a borrower must be certified totally and permanently disabled according to FFELP discharge criteria for *all* underlying loans—including any non-FFELP loans. In other words, all of the underlying loans would be eligible for discharge due to total and permanent disability had these loans not been consolidated. A borrower is considered totally and permanently disabled based on a condition that existed at the time the borrower applied for an underlying loan only if the borrower's condition substantially deteriorated to the point that the borrower was rendered totally and permanently disabled after the loan was made. If requested, a borrower seeking to discharge a Consolidation loan obligation must provide the lender with the disbursement dates of the underlying loan(s), if that information is not available in the lender's servicing records.
[§682.402(c)]

If a loan is made to two borrowers as comakers, the loan is dischargeable as a total and permanent disability claim only if both borrowers become disabled or if one borrower becomes disabled and the other has his or her obligation to repay the loan discharged on another basis (such as death or bankruptcy). If only one comaker has his or her obligation discharged, the other comaker is obligated for repayment of the remaining loan balance.

If there have been servicing errors on the loan such that the loan has lost its guarantee, and those violations were not cured before the date the lender determined that the borrower was totally and permanently disabled, the lender must discharge the loan—even though the balance will not be reimbursed by the guarantor.
[§682, Appendix D]

Timely Filing Deadline for Total and Permanent Disability Claims

A lender must file a disability claim within 60 days of receiving the physician's certification. If a disability claim is not filed by the 60th day, the guarantor will still purchase the claim—unless prior servicing violations were not cured appropriately. However, the claim will be subject to an interest penalty, and the lender will be required to repay all interest benefits and special allowance payments for amounts received or otherwise payable after the expiration of the 60-day deadline.
[§682.402(g)(2)(i)]

CCI 8.2.D. Bankruptcy Claims

A lender may be advised of a borrower's bankruptcy by the borrower or the borrower's attorney, but the lender must make its determination to file a claim based on the receipt of the Notice of the First Meeting of Creditors (the Notice) or other confirmation from the bankruptcy court (directly either from the court or from another source).
[§682.402(f)(3)]

If a borrower defaults on a loan and then files a bankruptcy petition, the lender must file a default claim on the loan no later than the 270th day of delinquency. The lender must clearly note its receipt of bankruptcy documentation in the claim file. Before filing the default claim, the lender—as holder of the loan—is responsible for performing any and all bankruptcy activity required by the court and responding to all bankruptcy correspondence.

If a borrower has been approved for a loan and, before the loan is fully disbursed or the final disbursement has been delivered to the borrower by the school, the lender is notified that the borrower has filed a bankruptcy action, the lender should cancel all remaining funds that have not been disbursed and request that the school immediately return any disbursements sent to the school but not yet delivered to the borrower.

If the bankruptcy action requires the lender to file a claim with the guarantor, the lender must file a bankruptcy claim within the applicable timely filing deadlines defined in this section. The lender must file the claim for the balance outstanding on the date that the lender receives the bankruptcy notice, less any funds returned by the school prior to the date on which the claim is filed. If, after claim filing, the lender receives funds returned from the school, the lender must credit those amounts to the borrower's loan and notify the guarantor of the revised claim amount.

Some guarantors have different requirements regarding the treatment of disbursements when a lender is notified of a borrower's filing for bankruptcy. These requirements are noted in appendix C.

Filing a Proof of Claim

A lender must file a proof of claim with the bankruptcy court no later than 30 days after it receives the Notice—unless the Notice specifically states that a proof of claim is not required. If required, the proof of claim must be filed, even if a default claim has already been filed on the loan and the lender has not yet received payment from the guarantor. If a proof of claim is required, the lender must immediately forward a copy of the bankruptcy notification, proof of claim, and an original assignment of the proof of claim to the guarantor.
[§682.402(f)(4)]

▲ Some guarantors may file a proof of claim on the lender's behalf. Lenders may contact individual guarantors for more information. See section 1.5 for contact information.

If a proof of claim is not required by the court, the lender should ensure that it is on the bankruptcy court's mailing list. This may be accomplished through either a telephone call or letter to the bankruptcy court. Doing so will ensure that the current holder receives all notices regarding the borrower's bankruptcy filing.

All notices received regarding the borrower's bankruptcy filing should be forwarded to the guarantor, within 30 days of receipt, if a claim is pending or has been paid.

Loans Eligible for Bankruptcy Claim Payment

A lender must file a bankruptcy claim if either of the following conditions exist:

- A borrower files a Chapter 12 or 13 bankruptcy.
- A borrower files a petition for undue hardship (or adversary complaint) under a Chapter 7 or 11 bankruptcy.
  [§682.402(f)(5)(i)(A) and (C); 971 PL 105-244]

In all cases, the guarantor will review the loan's servicing history to ensure that servicing requirements have been fulfilled before the date the lender was notified of the borrower's petition for bankruptcy.

If a loan is made to two borrowers as comakers, the loan is dischargeable as a bankruptcy claim only if both borrowers have filed bankruptcy actions under which federal educational loans are dischargeable or if one borrower has done so and the other borrower has his or her obligation to repay the loan discharged on another basis (such as death or total and permanent disability). If only one comaker has his or her obligation to repay the loan discharged, the other comaker becomes obligated for the repayment of the remaining loan balance. However, the lender must follow bankruptcy, statutory, and case law as it pertains to comaker discharge.

When preparing a claim, the lender must file a proof of claim with the bankruptcy court for all "asset" cases (as instructed on the Notice) and include a copy of the proof of claim and an original assignment of the proof of claim in the claim file.

Loans Not Eligible for Bankruptcy Claim Payment

If a loan is not eligible for claim payment, the lender must hold the loan and cease collection activities until the bankruptcy action concludes. When the action concludes and the lender is notified that the loan was deemed nondischargeable, that the bankruptcy case was dismissed, or that a discharge was reversed, the lender must treat the loan as though it were in forbearance. Any accrued interest should be capitalized from the date of the bankruptcy petition to the date the lender received notification that the bankruptcy action was concluded. The lender also may include in the administrative forbearance any period before the date of the bankruptcy petition for which the borrower was delinquent.
[§682.402(f)(5)(ii)]

The lender must return the account to repayment and schedule the next payment due date to occur within 45 days after receiving the notification that the bankruptcy action has concluded, if the account should be in repayment at that time. If the loan was in a deferred, in-school, or grace status at the time the bankruptcy notification was received, the lender should ascertain the correct status for the loan at the conclusion of the bankruptcy action and return the loan to that status.

Timely Filing Deadlines for Bankruptcy Claims

In the absence of information to the contrary (such as a date stamp on the Notice), a guarantor will assume that any notification provided by a bankruptcy court was received by the lender on the 5th day following the court issuance date marked on the Notice. A lender is strongly encouraged to date-stamp all bankruptcy notifications immediately upon receipt, to provide clear evidence of the receipt date. Other acceptable proof of receipt includes a letter from the lender certifying a specific receipt date or documentation in the borrower's file or the servicing history of the loan.
[§682.402(f)]

A bankruptcy claim and proof of claim, if applicable, must be filed with all required documents within 30 days of the lender's receipt of the Notice of the First Meeting of Creditors or other confirmation issued by the bankruptcy court or within 30 days of the date the guarantor provides the lender with bankruptcy information and instructs the lender to file a claim, whichever is earlier. For more information on documentation to be filed with a bankruptcy claim, see subsection 8.3.B.
[§682.402(g)(2)(iv)(A)]

If a borrower files a petition for undue hardship (or adversary complaint), the lender must file a claim within 15 days of receiving the petition or within 15 days of the date the guarantor provides the lender with the bankruptcy information and instructs the lender to file a claim, whichever is earlier. If the lender receives an extension of time from the bankruptcy court for filing a response to the undue hardship petition (adversary complaint), the claim must be filed no less than 25 days before the expiration of that extended period or within 15 days of the date the guarantor provides the lender with the bankruptcy information and instructs the lender to file a claim, whichever is later.
[§682.402(g)(2)(iv)(B)]

Failure to submit a dischargeable bankruptcy claim by the end of the claim filing deadline will result in permanent cancellation of the guarantee on the loan—unless the lender can demonstrate that the bankruptcy action has been concluded and that the loan was not discharged or that the bankruptcy action in which the loan was originally discharged has been reversed. If this is the case, the lender need not cure the violation but must return the loan to the appropriate status and resume servicing activities. If the loan was 180 days or more delinquent at the time the borrower filed bankruptcy, the lender may treat the loan as a default. The lender may file a default claim within 90 days of being notified of the bankruptcy action's conclusion or reversal or by the 270th day of delinquency, whichever is earlier. The claim, if purchased, will be subject to an interest penalty, and the lender will be required to repay all interest benefits and special allowance payments for amounts received or otherwise payable from the date on which the loan should have been filed as a bankruptcy claim through the date on which the lender received notice that the loan was not dischargeable or that the discharge had been reversed.

If a lender incurred due diligence violations or timely filing violations that resulted in cancellation of the guarantee, and those violations remained uncured as of the date it received notification of the bankruptcy filing, the lender may not file a bankruptcy claim. These violations cannot be cured—unless the debt is not discharged at the conclusion of the bankruptcy action, in which case the lender may attempt to cure the violations after the loan is returned to a repayment status.

CCI 8.2.E. Dismissal or Reversal of Bankruptcy Action

After a guarantor purchases a bankruptcy claim, it may diligently contest the discharge of the loan with the bankruptcy court. Generally, a loan will be considered dischargeable only if it has been in repayment for more than 7 years or if the borrower has filed a petition for undue hardship (or adversary complaint). The guarantor must, under federal regulations, require a lender to repurchase a loan that was filed as a bankruptcy claim if the bankruptcy is subsequently dismissed by the court or if the loan is determined to be nondischargeable.
[§682.402(j)]

A lender will be notified if it is required to repurchase a loan. If a lender is required to repurchase a loan for the preceding reason, the loan should be treated as though it were in an administrative forbearance from the date the borrower filed bankruptcy to the date the repurchase occurred and the lender received the supporting documentation from the guarantor. The lender may include in the administrative forbearance any period before the date of the bankruptcy petition for which the borrower was delinquent. For more information on claim repurchase, see section 8.7.
[§682.402(j)]

CCI 8.2.F. Ineligible Borrower Claims

A loan for which the borrower is ineligible due to the borrower's or student's error (see section 7.12) is treated as a default if the borrower fails to repay the full amount due within 30 days after the final demand letter is mailed.

A lender must file an ineligible borrower claim for the entire outstanding loan amount on or after the 30th day, and no later than the 120th day, after the date it mailed the final demand letter.

Because a loan for which a borrower is determined to be ineligible loses eligibility for interest benefits, the amount of interest refunded to the Department becomes borrower accrued interest and may be capitalized. For claim payment purposes, this interest is treated like any other delinquent interest.
[§682.412]

For information on claim documentation, see subsection 8.3.B.

If an ineligible borrower claim is filed after 120 days from the date a timely final demand letter is mailed, the guarantor will purchase the claim with an interest penalty.

CCI 8.2.G. Closed School Loan Discharge

The Higher Education Act provides relief for borrowers who are unable to complete their programs of study due to the closing of a school. Borrowers who meet the criteria outlined in this subsection may be eligible to have their loans discharged.

To qualify for closed school loan discharge, a borrower must submit to his or her lender or guarantor a written request and sworn statement made under penalty of perjury that declares the following:

- The borrower (or student for whom a parent obtained a PLUS loan) received, on or after January 1, 1986, the proceeds of a disbursement of a FFELP loan to attend a school that later closed.
- The borrower (or student) did not complete the program of study at the school for which the loan was obtained because the school closed while the student was enrolled or on an approved leave of absence, or the student withdrew within 90 days of the school's closing.
- The borrower (or student) did not complete—and is not currently in the process of completing—the same or a similar program of study through a teach-out at another school or a transfer of academic credits or hours earned at the closed school to another school.
- The borrower (or student) agrees to provide, upon request, other reasonably available documentation that demonstrates the borrower's eligibility for discharge.
- The borrower (or student) agrees to cooperate with the Department or its designee in any enforcement action or attempt to recover discharged loan amounts, and to transfer and relinquish to the Department any right to a refund on a discharged loan.

The statement also must indicate whether the student has made a claim with respect to the school's closing with any third party, such as the holder of a performance bond or tuition recovery program. If so, the amount of any payment received by the borrower (or student) or credited to the loan obligation must be noted.

The Department has issued the following guidelines on closed school loan discharge:

- A borrower of a FFELP loan that was partially discharged under the closed school provisions outlined in DCL 89-G-159 is eligible to have the remaining balance of his or her loan discharged without meeting the requirements listed above.
- If loan discharge is approved, all eligible loans made for the student's enrollment in the program of study being pursued when the school closed will be discharged.
- Loan discharge is not restricted to loans made for attendance at an eligible school that closed. If an ineligible school or branch certified FFELP loan applications under an eligible school identification number, and the ineligible school or branch subsequently closed, those loans also may qualify for discharge.
- A borrower is not eligible for loan discharge if the student's program of study was terminated by the school, but the school did not close at that time. An entire school or location must close for a borrower to be eligible for loan discharge.
- A legally enforceable loan that has lost reinsurance as a result of a due diligence violation is eligible for discharge and claim payment if the borrower meets all discharge requirements. In processing such claims, a guarantor will not assess penalties for the due diligence violations.

To assist lenders and borrowers, many guarantors use a form with self-certifying borrower statements covering the preceding eligibility criteria. Hereafter, such a form will be referred to as a request for loan discharge due to school closure (or request).

In some cases, a request will be provided by the guarantor and sent to the lender. The lender will then forward the request to the borrower according to the following procedures. In other cases, a guarantor may mail the request directly to a potentially eligible borrower and notify the lender of this action. In such cases, the guarantor also may have the borrower return the request directly to the guarantor for a determination of eligibility. The guarantor will then notify the lender of the borrower's eligibility or ineligibility for discharge of the loan(s).

Identifying Potentially Eligible Borrowers

In some cases, a borrower's potential eligibility will be identified before a school's closing has been officially confirmed by the Department. A guarantor or lender may receive information indicating that a school has closed and that a borrower or student who attended the school may be eligible for closed school discharge. If the lender is notified of such information by a guarantor or other reliable source (such as a telephone call or letter from the borrower), the lender must immediately grant the borrower an administrative forbearance on each loan obtained to attend that school while awaiting confirmation of eligibility for loan discharge. Also, if the guarantor has not already notified the lender of the school's closing, the lender must report the unconfirmed school closing to the guarantor.

If the borrower has been informed in writing of the costs associated with capitalized interest accrued during administrative forbearance periods, and the borrower does not request that the lender remove the administrative forbearance, the lender should continue to grant an administrative forbearance on the borrower's potentially eligible loans. The administrative forbearance should be continued until the lender obtains confirmation of the school's closing and the borrower's potential eligibility for loan discharge. The lender should document the borrower's file if the borrower requests that the administrative forbearance be removed. If the borrower continues to make payments during the administrative forbearance period, the lender is not required to return the borrower's payments.

A school's closing is considered to be officially confirmed as soon as it appears on a closed school list published by the Department and made available to all guarantors. A school must be included on the Department's list before a lender can file a claim on a borrower's loan based on the closing.

If a guarantor receives confirmation of a closed school from the Department, the guarantor sends to each affected lender a report listing all potentially eligible borrowers according to the guarantor's records—including any borrowers who have paid their loans in full. The guarantor also may forward forms for each identified borrower to the lender or advise the lender that the requests have been mailed directly to the borrowers (if the guarantor provides this service to its lenders). Otherwise, the lender is responsible for mailing a request to each affected borrower within 60 days of receiving the guarantor's notification, according to the procedures outlined in this subsection.

A lender also may review its records to identify other loans made to borrowers (or students) who appear to qualify for closed school loan discharge. If the lender identifies other potentially eligible borrowers, these must be included in the mailing of requests.

Consolidation Loans

According to the Department, a borrower's Consolidation loan should be credited for the amount of the closed school loan discharge that would have been applicable to the borrower's loan at the time it was consolidated. Upon identifying a potentially eligible loan, the guarantor will forward a request for loan discharge due to school closure to the last holder of the loan before consolidation—even if the loan has been reported as paid in full.

Upon receiving the information, the lender should forward the request, with all available information pertaining to borrower payments made before consolidation, to the holder of the Consolidation loan. The guarantor may notify the Consolidation loan holder of the borrower's potential eligibility for loan discharge instead of the previous holder of the underlying loan, if appropriate.

The consolidation lender, when notified of a borrower's potential eligibility for discharge of an underlying loan, must place the entire Consolidation loan in an administrative forbearance for up to 60 days and promptly forward the request to the borrower for completion.

If the holder of an underlying loan before consolidation is unable to identify the consolidation lender, the lender must forward the request to the borrower with instructions that the borrower send the completed request to the consolidation lender.

Notification to the Borrower

At the time a request for loan discharge due to school closure is mailed to a borrower, the lender must grant the borrower an administrative forbearance. On a loan that appears to be eligible for discharge, the forbearance should be applied for a period of 60 days, beginning on the date the request is sent to the borrower for completion. This forbearance is unnecessary for a borrower whose loan is in a grace, forbearance, or deferred status—unless that status is scheduled to expire before the end of the 60-day period. In these cases, the administrative forbearance must begin immediately upon the expiration of the grace, forbearance, or deferred status and end no earlier than 60 days after the date the request was sent to the borrower.

Along with the request for loan discharge due to school closure, the lender or guarantor must provide the following information to potentially eligible borrowers:

- Eligibility requirements for closed school loan discharge.
- Instructions for completing the request and returning it within 60 days.
- An explanation of the administrative forbearance applied to each of the borrower's potentially eligible loans and the effect of capitalization of interest accrued during the forbearance period.

Procedures for Discharging Loans

The following procedures apply in cases where the school has been confirmed by the Department to have closed on or after January 1, 1986, and the borrower has been sent a request for loan discharge due to school closure:

Processing the Borrower's Request

If a borrower returns to the lender a fully completed and signed request, the lender should determine whether the borrower appears to qualify for loan discharge. If the borrower appears to qualify, the lender should file a claim according to the procedures outlined in this subsection. If a borrower returns to the guarantor a fully completed and signed request, the guarantor will review the request and determine the borrower's eligibility for discharge. The guarantor will then notify the lender that either the borrower qualifies for discharge and a claim should be filed or the borrower does not qualify for discharge and collection activity should resume.

If a borrower submits an incomplete request—except in the case of a missing signature—the lender or guarantor should either promptly return the request to the borrower, with an explanation of why the form is considered incomplete, or contact the borrower by telephone or letter to obtain the missing information. If the borrower's signature is missing, the form must be returned to the borrower. The lender or guarantor must document the borrower's loan history accordingly. In either situation, the administrative forbearance period described previously in this subsection must not exceed a total of 60 days from the date the request was originally mailed to the borrower.

If a borrower fails to submit a completed request within 60 days of being notified of that option, the lender must resume collection on the loan(s). The lender is deemed to have exercised forbearance on the loan(s) from the date of suspension of collection activity. Unpaid interest that accrued during the forbearance may be capitalized. If a completed request is received from the borrower at a later date, the lender must process the request and file a claim with the guarantor if the borrower appears to qualify for loan discharge.

A lender can facilitate the timely and accurate processing of closed school claims by ensuring that a fully completed request from the borrower is submitted with each closed school claim. It is critical that each field on the request is completed by the appropriate party.

If a borrower's address is unknown or the request is returned as undeliverable and the borrower is delinquent in making payments, the lender must attempt to locate the borrower as required in subsection 8.1.I. The lender need not duplicate its efforts if skip tracing efforts are in progress or have been exhausted. Upon receiving a valid address for the borrower, the lender must send or resend the request to the borrower.

Claim Filing and Payment

The lender must file a closed school claim within 60 days of receiving a completed request from the borrower or, if the guarantor has obtained the request directly from the borrower, within 60 days of the date of the guarantor's notification to file a closed school claim. Failure to meet this timely filing deadline may result in an interest penalty.

The lender must forward to the guarantor within 30 days of receipt any borrower payment it receives after the claim has been filed (see subsection 8.3.F.).

Closed school claim filing documentation differs from that required for other claim types. The claim filing documentation required by the guarantor depends on the status of the loan. One of three categories may exist.

Some guarantors have additional documentation requirements. These requirements are noted in appendix C.

CATEGORY 1: If the closed school claim includes Stafford, PLUS, or SLS loans with outstanding balances, the lender must submit the following documentation:

- The Claim Form, completed according to the accompanying instructions.
- The completed request for loan discharge due to school closure.
- The original application and promissory note, assigned to the guarantor. The lender alternatively may submit other acceptable documentation (such as a true and exact copy).
- The total amount of payments made by or on behalf of the borrower. This total should be provided on the Claim Form. If the total amount of payments made by or on behalf of the borrower is not available, the lender must clearly explain why this information is not provided on the Claim Form.
- Any amounts the lender is aware of having received from a third-party source (e.g., a tuition recovery program). These amounts must be included in the total amount of principal repaid on the Claim Form and must *not* be included in the total amount of payments made by or on behalf of the borrower.

Supporting documentation not required for claim submission must be retained by the lender in accordance with federal requirements.

The claim payment amount will include remaining principal, outstanding accrued interest, and collection costs incurred by the lender and applied to the borrower's account within 30 days of the date the costs were actually incurred. If a lender meets all timely filing and refiling requirements, interest will be paid through the claim payment date.

At the same time the claim is paid, the guarantor will refund to the borrower all payments made by or on behalf of the borrower, less any payments received from a third-party source—unless the guarantor also holds a defaulted loan for the borrower that is not eligible for discharge. If the guarantor holds such a loan, the guarantor may apply the borrower's refund to the outstanding balance of the defaulted loan account. Any payment exceeding the remaining balance of the defaulted loan account will be forwarded to the borrower. The guarantor will notify the borrower of the application of the refund to repay the defaulted loan(s) at the time the claim is paid.

CATEGORY 2: If the closed school claim includes Stafford, PLUS, or SLS loans that have been paid in full as a result of a Consolidation loan, the consolidation lender must submit the following documentation:

- The Claim Form completed according to the accompanying instructions. The Claim Form must specify the amount paid to the previous holder to consolidate the loan and the interest applicable to the Consolidation loan. The consolidation lender should identify the loan type on the Claim Form as the loan type of the underlying loan (not as a Consolidation loan). The lender must report an interest-paid-through date equal to the date of consolidation, unless a subsidized deferment applied to the Federal Consolidation loan requires adjustment of the interest-paid-through date to a later date.
- The completed request for loan discharge due to school closure.
- The original application and promissory note for the underlying loan(s), assigned to the guarantor. The lender alternatively may submit other acceptable documentation (such as a true and exact copy). If the original or the true and exact copy of the application and promissory note cannot be located, the guarantor and the lender must examine their records and any documentation submitted by the borrower to determine if the borrower qualifies for a discharge or refund.
- Documentation that specifically identifies each loan for which discharge is requested. This information should include loan type, disbursement date(s), the prior holder of the loan, and the amount paid to the prior holder when the loan was consolidated.
- The total amount of payments made to each applicable underlying loan holder before consolidation by or on behalf of the borrower. This total should be provided on the Claim Form. If the total amount of payments made by or on behalf of the borrower is not available, the lender must clearly explain why this information is not provided on the Claim Form.

- Any amounts the lender is aware of having received from a third-party source (e.g., a tuition recovery program). These amounts must be included in the total amount of principal repaid on the Claim Form and must *not* be included in the total amount of payments made by or on behalf of the borrower.

Supporting documentation not required for claim submission must be retained by the lender in accordance with federal requirements.

If an underlying loan is determined to be eligible for discharge, the claim amount paid to the holder of the Consolidation loan will include *(a)* the amount paid by the consolidation lender to the prior holder, *(b)* interest on the amount paid to the prior holder accrued from the date of consolidation through the date of discharge, and *(c)* the amount of all payments made by or on behalf of the borrower on each of the underlying loans before consolidation—less any payments received from a third party source.

The consolidation lender must apply any claim payment amount received from the guarantor to the remaining balance of the outstanding Consolidation loan. If application of the claim payment results in the Consolidation loan being paid in full, any remaining funds must be refunded to the borrower.

CATEGORY 3: If the claim consists solely of FFELP loans paid in full by or on behalf of the borrower, the lender must submit the following documentation:

- The Claim Form, completed according to the accompanying instructions.

- The completed request for loan discharge due to school closure.

- The original application and promissory note, assigned to the guarantor. The lender alternatively may submit other acceptable documentation (such as a true and exact copy). If the original or the true and exact copy of the application and promissory note cannot be located, the guarantor and the lender must examine their records and any documentation submitted by the borrower to determine if the borrower qualifies for a discharge or refund.

- The total amount of payments made by or on behalf of the borrower. This total should be provided on the Claim Form. If the total amount of payments made by or on behalf of the borrower is not available, the lender must clearly explain why this information is not provided on the Claim Form.

- Any amounts the lender is aware of having received from a third-party source (e.g., a tuition recovery program). These amounts must be included in the total amount of principal repaid on the Claim Form and must *not* be included in the total amount of payments made by or on behalf of the borrower.

Supporting documentation not required for claim submission must be retained by the lender in accordance with federal requirements.

If a loan that is paid in full is determined to be eligible for discharge, the guarantor will notify the lender that the loan obligation is discharged.

The guarantor will refund to the borrower all payments made by or on behalf of the borrower, less any payments received from a third-party source—unless the guarantor also holds a defaulted loan for the borrower that is not eligible for discharge. If the guarantor holds such a loan, the guarantor may apply the borrower's refund to the outstanding balance of the defaulted loan account. Any payment exceeding the remaining balance of the defaulted loan account will be forwarded to the borrower. The guarantor will notify the borrower of the application of the refund to repay the defaulted loan(s).

Additional Considerations

Within 30 days after receiving claim payment, the lender must notify the borrower that the loan obligation has been discharged and must instruct all credit reporting agencies to which the lender previously reported information on the loan to delete all adverse credit history associated with the discharged loan.

If borrower payment records are unavailable at the time the claim is due to be filed by the lender, the lender should request loan discharge from the guarantor within the required time frame to avoid a violation. The guarantor will refund to the borrower the difference between the original loan principal and the principal balance outstanding with the lender. Any additional amounts not included in the claim payment can be paid later through a supplemental claim based on proof of borrower payments or supplemental documentation provided by the lender.

If the discharged loan is included in an active bankruptcy case, the entity on record with the bankruptcy trustee must notify the trustee that the debt has been discharged and explain the reason for the discharge.

Discharging Defaulted Loans

Default Claim Not Yet Filed

If the lender has not filed a claim on a defaulted loan when it learns of a borrower's potential eligibility for closed school discharge, the lender should grant the borrower an administrative forbearance. The lender should send a borrower it believes may be eligible for discharge a request for loan discharge due to school closure once the school has been confirmed to be closed.

If the request is not returned within 60 days, the lender must discontinue the administrative forbearance and prepare the default claim for filing. The aging of the delinquency on the account will stop due to the administrative forbearance so that the lender will be able to file a default claim if the borrower fails to return the request. In these cases, the lender should clearly indicate in the servicing history that a closed school forbearance was granted after default. This indication will assist the guarantor in appropriately handling the situation and will help prevent an inappropriate cancellation of the guarantee due to a timely filing violation. Without a clearly documented forbearance, the number of days of delinquency would appear to far exceed the permissible amount at the time the guarantor receives the claim.

Default Claim Filed, But Not Yet Paid

To provide a borrower the opportunity for loan discharge when a default claim has been filed but not yet paid, the lender must notify the guarantor of each borrower it identifies as potentially eligible for loan discharge due to his or her school's closing. To expedite this process, on the same day the lender sends the discharge request to the borrower, the lender should notify the guarantor. The lender may request that the claim file be returned. However, if no request is made, the guarantor will continue processing the default claim.

If the borrower returns a completed request form, the lender should refile the claim as a closed school claim. If no response is received from the borrower, the lender should reactivate the default claim. The following time frames apply to refiling/reactivation deadlines and begin with the earlier of the day the lender or guarantor received the completed request for discharge from the borrower or, if no response is received, 60 days after the request is sent to the borrower:

- If the claim is refiled as a closed school claim or reactivated as a default claim within 30 days, the claim will be paid including all outstanding interest.
- If the claim is refiled as a closed school claim or reactivated as a default claim on or after day 31, but no later than day 60, the claim will be paid, but interest will be limited to 180 days.
- If the claim is not refiled as a closed school claim or reactivated as a default claim within 60 days, a timely filing violation exists and the guarantee on each applicable loan is canceled. To reinstate the guarantee, the cure procedures for timely claim filing violations must be completed (see subsection 8.8.J.).
- If the guarantee on the loan has been canceled, but the lender eventually receives the completed borrower request, the guarantor will waive the timely filing violation and will pay the closed school claim. However, only the principal balance will be included in the claim payment; no interest will be paid to the lender in these situations.

If a claim has been filed due to bankruptcy, ineligible borrower, death, disability, a defaulted Consolidation loan, or false certification—or if skip tracing is exhausted for delinquent borrowers with invalid addresses—the lender must not recall the claim. Particular care should be exercised when sending the request to borrowers who have filed bankruptcy. The cover letter must clearly state that the lender is not trying to "collect" the loan.

Discharge Denials

If a guarantor determines that a loan is not dischargeable under closed school provisions, it will return the claim to the lender with an explanation of why the borrower is not eligible. Within 30 days after being notified that the discharge has been denied, the lender must notify the borrower of the reasons for denial and resume collection efforts. The lender is considered to have granted an administrative forbearance on each loan from the date collection activity was suspended until the date the lender received notification that the claim was denied. The lender may capitalize outstanding accrued interest during the forbearance period.

A borrower's request for loan discharge may not be denied solely due to the borrower's failure to meet the 60-day requirement for returning the completed request for loan discharge due to school closure.

Citations

Information in subsection 8.2.G. has been compiled based on guidance from the following sources:
- Higher Education Act, Subsection 437(c)
- §682.402(d), (g), (h), and (k)
- DCL 94-L-166/94-G-256, September 1994
- Dear Guaranty Agency Director Letter, September 22, 1994 (supplement to preceding DCL)
- DCL 89-G-159, May 1989

CCI 8.2.H. False Certification Loan Discharge

The Higher Education Act provides relief for borrowers who meet false certification requirements as outlined in this subsection. A borrower qualifies for loan discharge due to false certification if the borrower—or student for whom a parent obtained a PLUS loan—received, on or after January 1, 1986, the proceeds of a FFELP loan disbursement to attend a school that:

- Admitted the student on the basis of his or her ability to benefit from its training, even though the student did not meet the applicable requirements for admission on the basis of ability to benefit.
- Signed the borrower's name on the application and/or promissory note without his or her authorization.
- Endorsed the borrower's name on the loan check or signed the authorization for electronic funds transfer or master check without the borrower's authorization—unless the student for whom the loan was made received the proceeds of the loan either by actual delivery of the loan funds or by a credit in the amount of the contested disbursement to charges owed to the school for the portion of the educational program completed by the student.

To qualify for loan discharge due to false certification, a borrower must submit a written request and sworn statement, made under penalty of perjury, in which the borrower:

- Agrees to provide, upon request, other reasonably available documentation that demonstrates the borrower's eligibility for discharge.
- Agrees to cooperate with the Department (or its designee) in any enforcement action or attempt to recover discharged loan amounts, and to transfer and relinquish to the Department any right to a refund on a discharged loan.
- States whether the student has made a claim with respect to the school's false certification with any third party, such as the holder of a performance bond or a tuition recovery program—and, if so, provides the amount of any payment received by the borrower (or student) or credited to the loan obligation.

If a borrower is considered eligible to have his or her loans discharged, all eligible loans made for the student's enrollment in the program of study that he or she was pursuing when the false certification occurred will be discharged.

In the case of a borrower requesting a discharge based on the school's improper determination of the student's ability to benefit, the borrower must make all of the following certifications with respect to the borrower or student for whom a parent received a PLUS loan:

- The student received proceeds of a loan, in whole or in part, after January 1, 1986, to attend a school.
- The student was admitted to the school on the basis of ability to benefit from its training, but did not meet the applicable requirements for admission on the basis of ability to benefit.
- The student either *(a)* withdrew from the school and did not find employment in the occupation for which the program was intended to provide training or *(b)* completed the training program for which the loan was obtained and made a reasonable attempt to obtain employment in the occupation for which the program was intended to provide training, but was unable to find employment in that occupation or obtained employment in that occupation only after receiving additional training that was not provided by the school that certified the loan.

In the case of a borrower requesting a discharge because the school signed the borrower's name on the loan application and/or promissory note without the borrower's authorization, the borrower must:

- State that the signature on either of those documents was not his or her signature.
- Provide five different specimens of his or her signature, two of which must be no earlier nor later than one year before or after the date of the contested signature.

In the case of a borrower requesting a discharge because the school, without the borrower's authorization, endorsed the borrower's name on the loan check or signed the authorization for electronic funds transfer or master check, the borrower must:

- Certify that he or she did not endorse the loan check or sign the authorization for electronic funds transfer or master check, or authorize the school to do so.
- Provide five different specimens of his or her signature, two of which must be no earlier nor later than one year before or after the date of the contested signature.
- State that the proceeds of the contested disbursement were not received either through actual delivery of the loan funds or by a credit in the amount of the contested disbursement applied to charges owed to the school for the portion of the educational program completed by the student.

To assist lenders and borrowers, many guarantors use a form with self-certifying borrower statements covering the preceding eligibility criteria. Hereafter, such a form will be referred to as a request for loan discharge due to false certification (or request).

In some cases, the guarantor will send the request forms to the lender. The lender will then forward the request to the borrower according to the following procedures. In other cases, the guarantor may mail the request directly to potentially eligible borrowers and notify the lender of this action. In such cases, the guarantor also may have the borrower return the request directly to the guarantor for a determination of eligibility. The guarantor will then notify the lender of the borrower's eligibility or ineligibility for discharge of the loan.

Identifying Potentially Eligible Borrowers

A borrower's potential eligibility may be identified by the receipt of reliable information in the form of a telephone call or written communication that may come from the borrower, lender, guarantor, Department, or another source. The lender is required to assist the guarantor and the borrower in determining whether the borrower is eligible for discharge of the loan.

As soon as a borrower is identified as potentially eligible for loan discharge based on a school's false certification, the lender must immediately suspend all collection activity and grant the borrower a 60-day administrative forbearance on all of his or her loans that are potentially eligible for discharge while awaiting a determination regarding discharge. This administrative forbearance is unnecessary for borrowers whose loans are in a grace, forbearance, or deferred status—unless the grace, forbearance, or deferred status would expire before the end of the 60-day administrative forbearance period. In these cases, the administrative forbearance must begin immediately upon the expiration of the grace, forbearance, or deferred status and end no earlier than 60 days after the date the request was sent to the borrower.

Along with the request for loan discharge due to false certification, the lender or guarantor must provide the following information to potentially eligible borrowers:

- Eligibility requirements for false certification loan discharge.
- Instructions for completing the request and submitting it within 60 days.
- An explanation of the administrative forbearance applied to each of the borrower's potentially eligible loans and the effect of capitalization of interest accrued during the forbearance period.

If the borrower's address is unknown or the request is returned as undeliverable and the borrower is delinquent in making payments, the lender must attempt to locate the borrower as required by the applicable skip tracing provisions (see subsection 8.1.I.). The lender need not duplicate its efforts if skip tracing efforts are in progress or have been exhausted. Upon receiving a valid address for the borrower, the lender must send or resend the request to the borrower.

Procedures for Discharging Loans

The following procedures apply in cases where the borrower has been determined potentially eligible for a false certification discharge and has been sent a request for loan discharge due to false certification.

Processing the Borrower's Request

If a borrower returns to the lender a fully completed and signed request (even after the 60-day time limit), the lender should file a claim according to the procedures provided in this subsection. The only exception to these procedures is for a borrower who claims that the school improperly endorsed or signed the borrower's name on a loan check, where the borrower did not receive the loan proceeds. In this situation, the lender must review all available documentation.

If a lender determines that a borrower's assertion is invalid based on persuasive evidence, the lender may interpret the borrower's objection as a statement of intent not to repay the loan and may file a default claim on that basis. However, the lender cannot report the loan as defaulted to credit bureaus until a final determination is made by the guarantor or the Department.

If a borrower returns to the guarantor a fully completed and signed request, the guarantor will review the request and determine the borrower's eligibility for false certification discharge. The guarantor will then notify the lender that either the borrower qualifies for discharge and a claim should be filed or the borrower does not qualify for discharge and collection activity should resume.

If a borrower submits an incomplete request to the lender or guarantor, the request should be promptly returned to the borrower with an explanation of why the form is incomplete, or the borrower may be contacted to obtain the missing information. The lender or guarantor must document the borrower's history accordingly. If the borrower's signature is missing, the form must be returned to the borrower. If an incomplete request is returned to the borrower, or if attempts are being made to contact the borrower to obtain missing information, the administrative forbearance period described previously in this subsection must not exceed a total of 60 days from the date on which the request was originally sent to the borrower.

If a borrower fails to submit a completed request within 60 days of being notified of that option, the lender must resume collection on the loan(s). The lender is deemed to have exercised forbearance on the loan(s) from the date of suspension of collection activity. Unpaid interest that accrued during the forbearance may be capitalized.

A lender can facilitate the timely and accurate processing of false certification claims by ensuring that a fully completed request for loan discharge due to false certification from the borrower is submitted with each claim. It is critical that each applicable field on the request is completed appropriately.

Claim Filing Procedures

The lender must file a false certification claim within 60 days of receiving a completed request from the borrower or, if the guarantor has obtained the request directly from the borrower, within 60 days from the date of the guarantor's notification to file a false certification claim. Failure to meet this timely filing deadline may result in an interest penalty.

The lender must forward any borrower payment it receives after the claim has been filed to the guarantor within 30 days of receipt (see subsection 8.3.F.).

If a false certification claim is submitted and the guarantor determines that the borrower is eligible for loan discharge, the claim will be paid within 90 days of the guarantor's receipt of the complete claim (if the lender is entitled to receive claim payment and the entire loan is discharged). The guarantor will notify the lender and borrower that the loan obligation has been discharged. The lender must notify all credit reporting agencies to which the lender previously reported information on the loan to delete all adverse credit history associated with the discharged loan.

The claim payment amount will include remaining principal, outstanding accrued interest, and collection costs incurred by the lender and applied to the borrower's account within 30 days of the date the costs were actually incurred. If a lender meets all timely filing and refiling requirements, interest will be paid through the claim payment date.

On the same date the guarantor pays the claim, it will refund to the borrower all borrower payments made on the loan, minus any funds received from a third party source.

For an eligible loan that was previously paid in full by or on behalf of the borrower, the guarantor will notify the lender that the loan obligation is discharged and will refund to the borrower all borrower payments made on the loan, minus any funds received from a third party source.

If borrower payment records are unavailable at the time the claim is filed by the lender, the guarantor will refund to the borrower the difference between the original loan principal and the principal balance outstanding with the lender. Any additional amounts not included in the claim payment can be paid later through a supplemental claim based on proof of borrower payments or supplemental documentation provided by the lender.

Claim Filing Documentation

False certification claim filing documentation differs from that required for other claim types. The claim filing documentation required by the guarantor depends on the status of the loan. One of three categories may exist.

Some guarantors have additional documentation requirements. These requirements are noted in appendix C.

CATEGORY 1: If the false certification claim includes Stafford, PLUS, or SLS loans with outstanding balances, the lender must submit the following documentation:

- The Claim Form, completed according to the accompanying instructions.
- The completed request for loan discharge due to false certification
- Any required borrower signature specimens or disbursement checks (as applicable).
- The original application and promissory note, assigned to the guarantor. The lender alternatively may submit other acceptable documentation (such as a true and exact copy).
- The total amount of payments made by or on behalf of the borrower. This total should be provided on the Claim Form. If the total amount of payments made by or on behalf of the borrower is not available, the lender must clearly explain why this information is not provided on the Claim Form.
- Any amounts the lender is aware of having received from a third-party source (e.g., a tuition recovery program). These amounts must be included in the total amount of principal repaid on the Claim Form and must *not* be included in the total amount of payments made by or on behalf of the borrower.

Supporting documentation not required for claim submission must be retained by the lender in accordance with federal requirements.

CATEGORY 2: If the claim includes Stafford, PLUS, or SLS loans that have been paid in full as a result of a Consolidation loan, the consolidation lender must submit the following documentation:

- The Claim Form, completed according to the accompanying instructions. The Claim Form must specify the amount paid to the previous holder to consolidate the loan as well as the interest applicable to the Consolidation loan. The consolidation lender should identify the loan type on the Claim Form as the loan type of the underlying loan (not as a Consolidation loan). The lender must report an interest-paid-through date equal to the date of consolidation, unless a subsidized deferment applied to the Consolidation loan requires adjustment of the interest-paid-through date to a later date.
- The completed request for loan discharge due to false certification.
- Any required borrower signature specimens or disbursement checks (as applicable).

- The original application and promissory note for the underlying loan(s), assigned to the guarantor. The lender alternatively may submit other acceptable documentation (such as a true and exact copy). If the original or the true and exact copy of the application and promissory note cannot be located, the guarantor and the lender must examine their records and any documentation submitted by the borrower to determine if the borrower qualifies for a discharge or refund.

- Documentation that specifically identifies each loan for which discharge is requested. This information should include loan type, disbursement date(s), the prior holder of the loan, and the amount paid to the prior holder when the loan was consolidated.

- The total amount of payments to each applicable underlying loan holder before consolidation that were made by or on behalf of the borrower. This total should be provided on the Claim Form. If the total amount of payments made by or on behalf of the borrower is not available, the lender must clearly explain why this information is not provided on the Claim Form.

- Any amounts the lender is aware of having received from a third-party source (e.g., a tuition recovery program). These amounts must be included in the total amount of principal repaid on the Claim Form and must *not* be included in the total amount of payments made by or on behalf of the borrower.

Supporting documentation not required for claim submission must be retained by the lender in accordance with federal requirements.

CATEGORY 3: If the claim consists solely of FFELP loans paid in full by or on behalf of the borrower, the lender must submit the following documentation:

- The Claim Form, completed according to the accompanying instructions.

- The completed request for loan discharge due to false certification.

- Any required borrower signature specimens or disbursement checks (as applicable).

- The original application and promissory note, assigned to the guarantor. The lender alternatively may submit other acceptable documentation (such as a true and exact copy). If the original or the true and exact copy of the application and promissory note cannot be located, the guarantor and the lender must examine their records and any documentation submitted by the borrower to determine if the borrower qualifies for a discharge or refund.

- The total amount of payments made by or on behalf of the borrower. This total should be provided on the Claim Form. If the total amount of payments made by or on behalf of the borrower is not available, the lender must clearly explain why this information is not provided on the Claim Form.

- Any amounts the lender is aware of having received from a third-party source (e.g., a tuition recovery program). These amounts must be included in the total amount of principal repaid on the Claim Form and must *not* be included in the total amount of payments made by or on behalf of the borrower.

Supporting documentation not required for claim submission must be retained by the lender in accordance with federal requirements.

Claim Payment: Loans Discharged Solely Due to Improper Endorsement of the Disbursement Check(s)

A claim filed by a lender based solely on the borrower's assertion that he or she did not sign the loan check will not be paid. Instead, the guarantor will, within 30 days of approving the discharge:

- Notify the borrower that his or her liability with respect to the amount of the contested disbursement of the loan has been discharged and that the lender has been informed.

- Transfer to the lender the borrower's written assignment of any rights the borrower may have against third parties with respect to a loan disbursement that was discharged because the borrower did not sign the loan check.

- Notify the lender that the borrower's liability with respect to the amount of the contested disbursement of the loan has been discharged.

Upon receiving notification from the guarantor, the lender must:

- Immediately discontinue any collection efforts against the borrower with respect to the discharged loan amount and any charges imposed, or costs incurred, by the lender related to the discharged loan amount that the borrower is, or was, otherwise obligated to pay.
- Within 30 days, instruct all credit reporting agencies to which the lender previously reported information on the loan to delete all adverse credit history associated with the discharged loan.
- Within 30 days, refund to the borrower all amounts paid by the borrower with respect to the loan disbursement that was discharged, including any charges imposed or costs incurred by the lender related to the discharged loan amount.
- Within 30 days, refund to the Department all interest benefits and special allowance payments received from the Department with respect to the loan disbursement that was discharged.

Claim Payment: Loans Discharged Based on Ability to Benefit or the School's Unauthorized Signature

If a claim filed by a lender is based on the borrower's assertion that *(a)* he or she did not sign the application and/or promissory note or authorization for electronic funds transfer or master check or *(b)* the school failed to test properly the student's ability to benefit, the guarantor will pay the claim within 30 days of approving the discharge.

The claim payment amount on an outstanding loan will include the remaining principal balance, outstanding interest accrued on the loan, and eligible collection costs incurred by the lender and applied to the borrower's account within 30 days of the date those costs were actually incurred.

At the same time the claim is paid, the guarantor will refund all payments made by or on behalf of the borrower, less any payments received from a third-party source.

Discharging Loans Paid in Full by the Borrower

If a loan that is paid in full is determined to be eligible for discharge, the refund to the borrower will include all payments made by or on behalf of the borrower, less any payments received from a third party source.

Discharging Loans Paid in Full by Consolidation

If a loan that is paid in full by consolidation is determined to be eligible for discharge, the claim amount paid to the holder of the Consolidation loan will include the amount paid by the consolidation lender to the prior holder plus interest and the amount of all payments made by or on behalf of the borrower before consolidation, less any payments received from a third party source.

Any payment exceeding the remaining balance of the Consolidation loan is to be forwarded to the borrower.

Within 30 days after receiving claim payment, the lender (or prior lender in the case of a loan paid in full by the borrower or through consolidation) must notify the borrower that his or her obligation has been discharged. If the lender is notified by the guarantor that the borrower does not qualify for loan discharge, the lender must, within 30 days of receiving notification, resume collection activities and notify the borrower of the reason for denial.

Discharge Denials

If the guarantor determines that a loan is not dischargeable, the guarantor will ensure that the following actions are performed within 30 days of denial:

- The guarantor will notify the lender that the borrower does not qualify for the requested discharge.
- The guarantor will notify the borrower that he or she does not qualify for discharge and explain the reasons for that determination. A borrower's request for loan discharge will not be denied solely due to the borrower's failure to meet the 60-day requirement for returning the completed request.

In its notification, the guarantor will advise the borrower that he or she remains obligated to repay the loan and warn the borrower of the consequences of default. In addition, the guarantor will explain that the borrower will be considered to be in default on the loan—unless the borrower fulfills either of the following requirements within 30 days:

- Submits a written statement to the guarantor in which the borrower acknowledges the debt and, if payments are due, agrees to begin or resume making those payments to the lender. Within 30 days after receiving this statement, the guarantor will return the claim file to the lender and notify the lender to resume collection efforts if payments are due.

- Requests that the Department review the guarantor's decision. Within 30 days after receiving this request, the guarantor will forward the claim file and all relevant documentation to the Department for review. Approval of the discharge by the Department will result in the forgiveness of the loan through claim payment or discharge by the guarantor. Denial will result in the return of the claim to the holder for continued servicing and collection.

The guarantor will pay a default claim to the lender within 30 days after a borrower fails to return either the statement acknowledging the debt or the request for review of the guarantor's decision by the Department.

A borrower's request for loan discharge may not be denied solely due to the borrower's failure to meet the 60-day requirement for returning the completed Request.

Citations

Information in subsection 8.2.H. has been compiled based on guidance from the following sources:
- Higher Education Act, Subsection 437(c)
- §682.402 (e), (g), (h), and (k)
- DCL 94-L-166/94-G-256

CCI 8.3 Claim Filing Requirements

As outlined in section 8.2, a lender must file each claim according to the procedures and deadlines pertaining specifically to the type of claim being filed. The lender's claim files must be accurate and must include all documentation specified in subsection 8.3.B.

▲ Some guarantors offer services that enable lenders to file claims electronically. Lenders may contact individual guarantors for more information on such services. See section 1.5 for contact information.

CCI 8.3.A. Claim Review Process

After a lender submits a claim, the guarantor will determine the validity of the claim by verifying that the lender administered the loan in compliance with federal requirements and the guarantor's policies and procedures.

CCI 8.3.B. Claim File Documentation

A lender must include the documentation listed in this subsection with each claim file it submits to a guarantor. If the borrower's file contains more than one of any document, all of the originals—or copies, if the originals are not available—should be included and grouped together. The lender also should group all claim files together by claim type (default, bankruptcy, etc.).

The Claim Form and instructions include three separate claim-filing statuses: exceptional performer status, standard review status, and program review status. The claim-filing status the guarantor or Department assigns determines both the method by which the lender's claims will be reviewed and paid and the documentation and information the lender will be required to provide in the claim file.

The claim review statuses are defined as follows:

- The *Exceptional Performer Status* is defined in regulation and assigned by the Department. Lenders achieving this status may file claims using documentation requirements outlined in this subsection. Such claims are not subject to additional review for due diligence, conversion to repayment, or timely filing requirements—except as determined to be necessary by the guarantor or the Department as part of the general program oversight responsibility.

- The *Standard Review Status* is applicable to a lender for whom the guarantor has identified no significant servicing deficiencies. Lenders under this status may file claims using documentation requirements as outlined in this subsection.

- The *Program Review Status* is applicable to a lender for whom the guarantor has identified significant servicing deficiencies. For lenders assigned this claim filing status, the guarantor may require additional information and documentation to support the claim.

  ▲ Lenders assigned a *Program Review Status* should contact the guarantor for additional claim documentation information. See section 1.5 for contact information.

Default, Death, Disability, and Bankruptcy Claims

Each claim file must contain the following documentation, as applicable. The documents should be arranged in the following order and according to the specified guidelines:

Some guarantors have additional or alternative requirements regarding claim file documentation. These requirements are noted in appendix C.

1. *Claim Form*

   Lenders must use the Claim Form (see section 8.12 and appendix F) or an equivalent electronic format when filing a claim. All data noted in the instructions accompanying the Claim Form must be provided. This data includes an accurate and legible record of the collection history.

   ▲ Contact your guarantor for more information regarding procedures for documenting the requisite 180-day delinquency period. See section 1.5 for contact information.

2. *Original Application and Promissory Note*

   The lender must submit the original application and promissory note, with any signed promissory note addenda. If the guarantor retains the original promissory note on the lender's behalf, the lender is expected to submit only the imaged copy of the application and promissory note that it receives from the guarantor or a facsimile of the note.

   If the lender's original application and/or promissory note has been lost or destroyed, the lender may submit a certified true and exact copy, which must be legible and bear all assignments (see item *3* below).

   In some cases, an indemnification agreement will be accepted if a lender is unable to provide required documentation for claim filing.

   ▲ Lenders may contact individual guarantors for information on the use of indemnification agreements in situations involving certified true and exact copies of promissory notes. See section 1.5 for contact information.

   If a loan is later found to be legally unenforceable against the borrower due to loss of the note(s), the lender must refund to the Department any interest benefits and special allowance payments collected by the lender on the loan and repurchase the claim from the guarantor.

3. *Assignment of Promissory Note*

   The claim file must contain the holder's original assignment of the promissory note to the guarantor. This assignment may be stamped, typed, or written directly on the back of the note—or, if the guarantor permits, may be in the form of a letterhead assignment or may be incorporated on the Claim Form. For letterhead assignments (assignment on a sheet of the current holder's letterhead, rather than on the note itself), the lender must ensure that the borrower name and social security number, loan amount, disbursement date(s), and loan type is provided for each note being assigned.

   If the ownership of the loan was previously assigned to the current holder from another holder, the holder must document all prior assignments, as applicable, and the lender's assignment of the note to the guarantor. Each prior assignment may be stamped, typed, or written directly on the back of the note, or may be in the form of a letterhead assignment or otherwise through an agreement with the guarantor.

4. *Out-of-School Date Information*

   Documentation supporting the lender's out-of-school date must be included as part of the claim documentation *only* if the lender is aware that its out-of-school date is different from the out-of-school date on the guarantor's file.

5. *Curing Instrument*

   A curing instrument (or a legible copy of a curing instrument) must be included as part of the claim file documentation if not previously provided to the guarantor. Examples of curing instruments include a new repayment agreement signed by the borrower, a copy of a payment check, or, in the case of an ICA location cure, acceptable evidence that the borrower has been located as required in subsection 8.8.L.

Guarantors may require lenders to provide additional information or documentation, for example if the borrower disputes the loan amount or a school disputes its cohort default rate.

Death or Disability Claims

For a death claim, the lender must submit—in addition to the preceding items *1* through *5*—evidence of the borrower's or student's death, such as the death certificate or other proof of death acceptable under applicable state law (see subsection 8.2.B.).

For a total and permanent disability claim, the lender must submit—in addition to the preceding items *1* through *5*—a completed Physician's Certification of Borrower's Total and Permanent Disability, a common Temporary or Permanent Total Disability Certification Request Form, or other forms approved by the Department (such as the common deferment form).

Bankruptcy Claims

For a bankruptcy claim, the lender must submit—in addition to the preceding items *1* through *5*—notification of the bankruptcy filing, such as the Notice of the First Meeting of Creditors (the Notice) or other confirmation directly received from the bankruptcy court or from another source; a copy of the Proof of Claim filed by the lender, if required; an original assignment of the Proof of Claim, if required; and all other pertinent documents sent to or received from the bankruptcy court.

Ineligible Borrower Claims

For an ineligible borrower claim, the lender is required to submit only items *1* through *3* of the preceding list. The lender must also provide the month, day, and year the final demand letter was mailed and reasonable documentation supporting the borrower's ineligibility for the loan, such as an affidavit or letter from the school or a statement from the lender clearly stating the facts and allegations.

Some guarantors have additional or alternative requirements regarding claim file documentation. These requirements are noted in appendix C.

Closed School and False Certification Claims

Documentation requirements for closed school and false certification claims are outlined in subsections 8.2.G. and 8.2.H., respectively.

CCI 8.3.C. Missing Claim File Documentation

If a lender submits a claim file with any required documentation missing or incomplete, or if the guarantor determines that more information is needed to process the claim, the guarantor may attempt to obtain the necessary documentation or return the claim file to the lender with a request for the missing documentation.

To expedite the claim filing process and avoid the return of claim files to the lender, the guarantor may use a fax machine to request and receive missing information from lenders. The types of documentation that may be transmitted and received by fax include, but are not limited to, the application and promissory note, promissory note assignment, payment history information, deferment or forbearance documentation, and missing collection history. In the case of documentation where an original may be required (such as the application and promissory note), the lender may fax a copy of the document so that the guarantor can continue processing the claim. However, the lender must, within the time frame established by the guarantor, forward the original document—or a copy certified as true and exact—to the guarantor to avoid a future claim return.

▲ Lenders may contact individual guarantors for information on faxing claim file documentation. See section 1.5 for contact information.

If a lender is unable to provide requested documentation, the loan may be subject to interest penalties or due diligence violations. If a lender is unable to provide accurate payment information, as required on the Claim Form, the guarantee on the loan may be canceled. However, the lender may attempt to have the loan's guarantee reinstated in many cases by following the applicable cure procedures (see subsection 8.8.I.).

In some cases, an indemnification agreement will be accepted if a lender is unable to provide required documentation for claim filing.

▲ Lenders may contact individual guarantors for information on the use of indemnification agreements to substitute for documents required in the claim file. See section 1.5 for contact information.

Some guarantors have additional or alternate requirements regarding missing claim file documentation. These requirements are noted in appendix C.

CCI 8.3.D. Claim File Receipt

Guarantors recommend that a lender retain copies of its postal or courier receipts for claims submitted and a list of all claims included in each package. Due to the difficulty in determining the lender's filing date, in absence of evidence to the contrary, a guarantor will monitor timely claim filing activities by permitting a 5-day mail time allowance, based on the date the guarantor receives the claim file.

To obtain confirmation that its claim submission has been received, the lender should include two copies of a transmittal letter with each submission. The guarantor may retain one copy of the transmittal letter and will sign and date the other copy and return it to the lender. This will provide the lender with a quick and simple method of ensuring that all claims are received by the guarantor. At a minimum, the transmittal letter should include the borrower name, social security number, and claim amount for each claim file, with a space for the guarantor to sign and date the letter.

CCI 8.3.E. Credit Bureau Reporting

As required under subsection 3.5.C., the lender must report to at least one national credit bureau the date a borrower's loan is discharged due to the disability, bankruptcy, or the death of the borrower or dependent student, as applicable. For closed school and false certification claims, the current loan holder must, within 30 days of the date the lender is notified that a loan is discharged, notify all credit reporting agencies to which any adverse credit has been reported that the loan obligation has been discharged and that the adverse credit information must be corrected.
[§682.208(b)]

CCI 8.3.F. Receipt of Payments after Claim Payment

A lender must forward to the guarantor any borrower payment received on a loan for which a claim has been purchased by the guarantor. The payment must be forwarded within 30 days of the lender's receipt of the payment.

CCI 8.4 Claim Returns

A guarantor will return (send back) a claim to the lender under certain circumstances. The guarantor will notify the lender of the reason for the return. A claim return could occur for one or more of the following reasons:

- The lender incurs a violation(s) that results in a loss of guarantee on the loan.
- The claim package contains inadequate documentation.
- The borrower is found not to be in a default status.
- The lender is unable to provide sufficient documentation to justify a borrower's total and permanent disability, death, false certification, closed school, or bankruptcy.
- The borrower is actually eligible for a loan when a lender incorrectly determines that he or she is ineligible (e.g., when a lender receives retroactive information that a student never enrolled although the student actually attended classes).

In the last three of the preceding cases, if a claim is returned with a request that the lender resume servicing, the lender must resume servicing the loan at the point of delinquency, if any, that existed on the loan immediately before the claim was filed (see subsection 8.4.B.).
[§682.406(a)]

CCI 8.4.A. Refile Deadline

A lender may resubmit a returned claim if it reviews the returned claim, satisfies all requirements for refiling the claim, and determines that the loan is still eligible for claim purchase. Claim resubmissions are subject to the following requirements, as applicable:

- A bankruptcy claim must be resubmitted within 30 days after the lender's receipt of the returned claim. Failure to resubmit a bankruptcy claim by the 30th day will result in an interest penalty, provided the late refile has not resulted in the guarantor's missing any court-established deadlines for bankruptcy activity.

- Any other claim must be resubmitted within 60 days after the lender's receipt of the returned claim. However, claims resubmitted on the 31st through the 60th day inclusive are subject to certain restrictions, as outlined in subsection 8.8.E.
[§682.406(a)(6); DCL 96-L-186/96-G-287, Q&As #36 and #37]

In absence of evidence to the contrary, the lender's receipt date is considered to be the date the guarantor returned the claim plus 5 days (for mailing).

For information on penalties for failure to resubmit returned claims timely, see subsection 8.8.E. In the case of a loan filed by a lender or servicer that has been designated an exceptional performer by the Department, no interest limitations are incurred due to untimely refiling of returned claims.
[§682.415(b)(7)(i)]

CCI 8.4.B. Resuming Loan Servicing after Claim Return

If a guarantor returns a claim to a lender for a reason other than inadequate documentation or loss of guarantee, the lender must resume servicing activities on the loan from the point of delinquency, if any, at which it ceased performing due diligence. The lender must ensure that all due diligence activities are performed accurately and timely, and that no gaps of 46 days or more occur.

The lender may not capitalize the interest accrued between the date the claim was inadvertently filed and the date it was subsequently returned, unless it obtains written authorization from the borrower. Guarantors recommend that a lender attempt to obtain authorization in the form of a forbearance agreement that enables the lender to capitalize all accrued interest and bring the loan current.

CCI 8.5 Claim Recalls

A lender is strongly encouraged to work with a borrower in any situation in which the borrower shows willingness to repay the debt. In such cases, the lender is strongly encouraged to recall the claim when appropriate.

A lender is required to recall a claim if any of the following situations occur before the guarantor purchases the claim:

- The loan is brought 120 or fewer days delinquent by receipt of a payment or a forbearance agreement. A forbearance agreement must include the borrower's agreement to repay.

- The borrower requests a deferment and submits all necessary documentation, and the documentation indicates that the borrower's eligibility began before the date of default. An administrative forbearance may be granted to cover any period of delinquency occurring before the deferment start date.

- The borrower requests a mandatory forbearance and submits all necessary documentation, and the documentation indicates that the borrower's eligibility began before the date of default.

- The lender becomes aware of the borrower's eligibility for a mandatory administrative forbearance (disaster relief, military mobilization, etc.) and the borrower's eligibility began before the date of default.

- The lender receives information or documentation (such as continuous in-school enrollment verification) that eliminates the default status.

- In the case of a bankruptcy claim, the lender receives notice that the court has declared the borrower's loan nondischargeable.

Some guarantors have additional requirements regarding the recall of claims. These requirements are noted in appendix C.

On an exception basis, a lender may request a waiver of the recall requirement in a situation where more than one recall has occurred previously.

A lender must immediately resume loan servicing upon receiving a recalled claim. If applicable, the next payment due date must fall within 45 days after the receipt of the recalled claim. Due diligence must be initiated based on the loan's new delinquency status as of the date that servicing resumes. If the loan is past due and the time frame within which the servicing is restarted does not require due diligence (on or after the 151st day of delinquency), the lender must mail, at a minimum, a new final demand letter and permit the borrower 30 days to respond to that letter before refiling the claim.

CCI 8.6 Claim Purchase

A guarantor will purchase a lender's default claim within 90 days of the date the claim was received, unless the lender fails to provide complete documentation or has committed one or more violations that warrant cancellation of the loan's guarantee (in which case the claim will then be returned unpaid).
[§682.406(a)(8)]

▲ Some guarantors may limit the amount of interest paid if the guarantor's agreement with the lender does not cover all of the accrued interest. See section 1.5 for contact information.

If a lender receives a payment by or on behalf of a borrower after a default claim has been filed but before it has been purchased, the lender must determine whether or not the claim should be recalled (see section 8.5). If the claim need not be recalled, the payment should be held until the claim payment is received. The lender should forward the payment to the guarantor within 30 days of receiving of the claim payment. A payment received after a default claim has been purchased must be forwarded to the guarantor for processing within 30 days of receipt. Any payment forwarded to the guarantor must be clearly marked as a borrower payment received prior to claim payment.

CCI 8.6.A. Claim Payment Amount

A claim will be paid as follows if a lender has complied with applicable servicing requirements and has not incurred interest penalties or violations sufficient to cause the loss of guarantee on the loan:

- The guarantor will use the principal claimed amount provided by the lender on the Claim Form (see appendix F for a copy of the Claim Form). This figure, which is the outstanding principal value of the claim, is calculated according to the following formula:

  Principal claimed = Total amount disbursed + Capitalized interest – Principal repaid – Cure interest capitalized.

  (See subsections 8.2.C., 8.2.G., and 8.2.H. regarding claim payment for total and permanent disability, closed school, and false certification claims.)

- The guarantor will not pay any type of claim for a total amount that is less than $50.00.

- The guarantor will pay 98% of the amount of outstanding principal and eligible interest for each default claim filed on a loan first disbursed on or after October 1, 1993, or consolidated on or after that date.

- The guarantor will pay 100% of outstanding principal and eligible interest for each of the following types of claims:

  - A default claim filed on a loan that was first disbursed before October 1, 1993.

  - A non-default claim, such as a death, disability, bankruptcy, false certification, borrower ineligibility, or closed school claim.

  - A claim on a loan made under Lender of Last Resort (LLR) provisions.

  - A claim filed by a lender or servicer that has been designated an exceptional performer—except on a loan the lender is required to exclude from this designation. Claims on qualifying loans made by an exceptional performer are not subject to interest penalties or claim rejection. For more information on exceptional performers, see subsection 8.8.C.

CCI 8.6.B. Amount of Interest Purchased on Eligible Claims

Generally, if a lender has complied with all applicable due diligence and loan servicing requirements, a guarantor will pay 98% or 100%, as applicable, of the outstanding interest owed from the interest-paid-through date through the date the guarantor purchases the claim.

Some guarantors may limit the amount of interest. These exceptions are noted in appendix C.

If the lender has committed certain violations of servicing requirements, but the loan is otherwise eligible for claim purchase, the guarantor will:

- Assess an interest penalty according to the type of violation or error that was made.
- Pay 98% or 100%, as applicable, of the interest for which the lender is eligible.

It is possible for a lender to incur more than one type of interest penalty and for more than one interest penalty to be assessed. For example, if a lender services a loan with nonreinsured capitalized interest from a previous period during which the loan lost its guarantee and then commits due diligence violations that result in a penalty, the lender's payment on the loan will not include the nonreinsured capitalized interest or any penalty interest for violations in the current due diligence cycle.
[§682, Appendix D]

For more information on interest penalties, see subsection 8.8.C.

CCI 8.6.C. Amount of Interest Purchased on Returned Claims

For a default claim, a guarantor's purchase of interest is not affected by the return of the claim, provided the lender refiles the claim in a timely manner (see subsection 8.4.A.). Generally, interest will be purchased from the interest-paid-through date on the loan through the claim purchase date, subject to any other interest penalties or limitations that apply.

After calculating the amount of interest for which the lender is eligible, the guarantor will pay 98% of that interest for loans disbursed on or after October 1, 1993—unless the loan was made under Lender of Last Resort provisions or the claim was filed by a lender or servicer designated as an exceptional performer (in which case the guarantor will pay 100% of the amount of interest for which the lender is eligible).
[§682.406(a)(6)]

If a death, disability, closed school, false certification, or bankruptcy claim is returned due to inadequate documentation, the guarantor's purchase of interest—if the lender does not incur any penalties for due diligence violations (as applicable, see subsection 8.8.C.) or for failure to meet timely filing or refiling deadlines—is as follows:

- The interest that accrues from the lender's current interest-paid-through date to the date the lender receives notification of the borrower's condition.
- The interest that accrues during the claim preparation period through the date the lender files the claim with the guarantor, not to exceed the original filing deadlines outlined in subsection 8.8.E.
- The interest that accrues from the date the lender receives a claim returned by the guarantor for additional documentation through the date the lender refiles the claim, provided that the period does not exceed 30 days following the return of the claim to the lender by the guarantor as outlined in subsection 8.8.E.
- The interest that accrues from the lender's timely claim filing or refiling date through the date the guarantor pays or returns the claim to the lender.
[§682.402(h)(3)(ii); DCL 96-L-186/96-G-287, Q&A #34]

CCI 8.6.D. Requests for Increase in Claim Payment

If a lender receives a claim payment that the lender believes is less than it should be, the lender should determine whether a claim payment increase is warranted by doing one or more of the following:

- Reviewing the claims approved report to see whether there is an explanation of why the claim was purchased with an interest penalty (for example, as a result of due diligence violations occurring during the delinquency cycle).
- Ensuring that the amount of interest does not exceed the maximum allowed by the guarantor (see subsection 8.6.B.).
- Ensuring that the amount of the claim reduction is not due to the loan's eligibility for 98% insurance.
- Determining whether any error was made on the original claim request (for example, if the interest-paid-through date the lender reported was inaccurate).

If, after making the preceding determinations, the lender believes that a claim payment increase is warranted, it must submit a request for increase in claim payment within 90 days of receiving the claim payment. To facilitate processing, the lender also should provide complete documentation that supports the basis for the claim payment increase request. Examples of such documentation include the servicing history, interest calculation tape, or relevant documentation omitted from the claim file in error.

The guarantor will not pay a supplemental claim for a total amount less than $50. That amount may include principal, interest, or both.

▲ Lenders may contact individual guarantors for more information concerning the submission procedures for supplemental claims. See section 1.5 for contact information.

Some guarantors may have different filing deadlines and/or minimum requested increase amounts. These exceptions are noted in appendix C.

CCI 8.6.E. Exceptional Performers

A lender that is designated an exceptional performer by the Department receives 100% reimbursement on all claims submitted during the period of designation, regardless of due diligence or servicing violations. To be designated an exceptional performer, a lender must follow procedures outlined in subsection 3.9.A. To maintain an exceptional performer designation once obtained, a lender must meet the criteria outlined in subsection 3.9.B.

CCI 8.7 Claim Repurchase

If a lender discovers that a loan was declared to be in default due to circumstances beyond the control of the lender and borrower (rather than the borrower's action or inaction), guarantors strongly recommend that the lender repurchase the claim. Repurchases may be subject to guarantor approval.

A lender may be required to repurchase a claim if the guarantor becomes aware that the claim was inadvertently purchased due to circumstances such as the following:

- The lender incurred a servicing error (such as posting the borrower's payments to the wrong loan) or regulatory violation resulting in a loss of guarantee on the loan.
- New information is obtained demonstrating that the borrower currently should not be delinquent or in default.
- The school failed to verify the student's enrollment status.
- A delay occurred in the processing of a deferment that would have brought the account fewer than 90 days delinquent.
- The loan is found to be legally unenforceable.
- Other reasons as determined by the guarantor.

Under federal regulations, a lender is required to repurchase a loan that was paid as a bankruptcy claim if the bankruptcy is subsequently dismissed by the court or, as a result of the hearing, the loan is considered nondischargeable and the borrower is responsible for repayment of the loan. This requirement does not apply in the case of a default claim for which a bankruptcy notice was subsequently received. [§682.402(j)]

A guarantor will notify the lender in writing of the guarantor's recommendation or requirement to repurchase a claim. If the lender disagrees with any aspect of the recommendation or requirement to repurchase, the lender should notify the guarantor and submit any new pertinent information on the loan. In the absence of a valid appeal, a guarantor-initiated repurchase must be finalized by the lender within 60 days of the lender's receipt of the request.

A lender may choose to initiate a repurchase at any time by contacting the guarantor. After the guarantor receives the lender's repurchase request and any supporting documentation, the guarantor will contact the lender to advise whether the request has been approved or denied. If the request is approved, the lender will be quoted the repurchase amount due. The guarantor may elect to waive some or all of the accrued interest and collection costs during the post claim period. The lender may capitalize accrued interest for the period during which the loan was held by the guarantor without obtaining a signed forbearance agreement from the borrower. The lender must document that the capitalization was a result of a repurchase.

If a lender chooses to recall a claim but the guarantor is unable to stop the claim payment on the loan, the lender may repurchase the loan by remitting an amount equal to the claim payment to the guarantor within 30 days of receiving the claim payment.

Repurchase of Defaulted Loans

Upon receiving a lender's payment for the quoted repurchase amount, the guarantor will process the repurchase and provide the lender with appropriate file documentation and the original promissory note. Any payments received from the borrower that affect the repurchase quote will be applied as adjustments to the purchase amount or will be refunded to the lender.

Some guarantors have additional requirements regarding the repurchase of loans after a default claim has been paid. These requirements are noted in appendix C.

CCI 8.8
Loss of Guarantee

If a lender commits a sufficient number of unexcused due diligence, timely filing, or other violations of federal regulations or the guarantor's policies and procedures, the guarantee on the loan will be canceled and the claim will be returned to the lender. The guarantor will notify the lender of the reason for the loss of guarantee.
[§682, Appendix D]

The following subsections describe the penalties that will be assessed if a lender incurs violations, allows gaps to occur during the performance of due diligence activities, or fails to file a claim in a timely manner. Also discussed are the applicable cure procedures a lender may perform to *(a)* reinstate a guarantee that has been lost as a result of such violations or gaps and/or *(b)* resubmit a claim—for example, upon completion of the intensive collection activities (ICA)/location cure procedure, which is outlined in subsection 8.8.K.

CCI 8.8.A.
Due Diligence Violations

If a lender fails to perform a required due diligence activity within the specified time frame, the failure is considered a violation. Due diligence violations include, but are not limited to, the lender's failure to perform any of the following activities in a timely manner:

- Make a required telephone contact or diligent effort to contact the borrower.
- Send a required collection letter.
- Request preclaim assistance from the guarantor as required.
- Conduct a skip tracing activity within the prescribed time frame.
- Establish a first payment due date.

For purposes of assessing due diligence violations, only violations that result from activities that were 6 days or more late (21 days or more in the case of a transfer) are counted. Although violations of 1 to 5 days do not result in penalties, they should be avoided. If a required due diligence activity is not performed or is performed 6 days or more late (21 days or more in the case of a transfer), such violation will result in a penalty to the lender or cancellation of the loan's guarantee.

Unless a due diligence violation occurs during the conversion to repayment, the violation will be excused if the borrower's loan is subsequently brought current before the 180th day of delinquency corresponding to the period during which the violation occurred. The borrower's loan may be brought current by payment, deferment, forbearance, or any combination of these elements. A payment received on the borrower's behalf, a signed repayment agreement, or a signed forbearance that contains language reaffirming the borrower's intent to pay his or her loan will cure all curable violations. However, the granting of a deferment or forbearance alone cannot cure a loan if the lender incurs due diligence violations sufficient to cause a loss of guarantee on the loan.

Due diligence violations resulting from a lender's failure to convert the loan to repayment within the prescribed time frame may not be excused simply by bringing the loan current. The lender may still attempt to collect the interest that accrued from the repayment start date to the first payment due date by capitalizing and disclosing such interest to the borrower. However, the guarantor will not reimburse the lender for the unpaid uninsured interest if the violation is cured and a claim is subsequently submitted on the loan.

For loans on which reinsurance is lost due to servicing violations, the date of the earliest unexcused violation is:

- The 46th day after the latest date on which the first due date could have been established in cases where a lender failed to establish a timely first payment due date (see subsection 7.4.B. for information on establishing first payment due dates).
- The 46th day after the last collection activity in cases where a lender permits a gap in collections activities of 46 or more days.
- The 181st day of delinquency if there exist three or more due diligence violations of 6 days or more.
- The day after the latest date on which the claim could have been filed if the lender does not file a claim within the prescribed time frames.
  [DCL 96-L-186/96-G-287, Q&A #68]

If the guarantee on a loan is canceled because of a due diligence violation, the cancellation date will be the date of the earliest unexcused violation. Once the guarantee is lost, the lender must refund to the Department interest benefits and special allowance payments received on the loan since the date of the earliest unexcused violation. In other words, the lender must refund those interest benefits and special allowance payments received since the end of the delinquency period during which the lender first failed to perform timely a required collection activity.

CCI 8.8.B. Due Diligence Gaps

Intervals between collection activities are called gaps.

Due diligence gaps may occur beginning the day after:

- The payment due date of the loan, unless the borrower's address is unknown.
- The date the last payment was received on a loan that remains delinquent.
- The date the lender receives a new valid address for a delinquent borrower.
- The date the lender receives a new valid telephone number for a delinquent borrower.
- The date the last collection activity, including skip tracing efforts, was performed.
- The date on which the lender received notice of a dishonored check that had been submitted as payment on the borrower's account.
- The ending date of an authorized deferment or forbearance period on a delinquent loan.
- The date the lender determined that it no longer had a valid address.
  [§682.411(i)(1)]

Due diligence gaps end on the earliest of:

- The day on which the lender receives the first subsequent payment on behalf of the borrower.
- The day the lender receives a completed request for a deferment or forbearance.
- The day on which the lender begins the first subsequent collection activity, including skip tracing activities to obtain a valid address or telephone number for the borrower.
- The day on which the lender receives written communication from the borrower relating to the borrower's account.
- The date the loan defaults.
[§682.411(i)(2)]

A gap of 46 days or more (61 days or more in the case of a transfer) between collection activities will result in the cancellation of the guarantee on the loan. The cancellation is effective from the date of the earliest unexcused violation. [§682.411(i)]

CCI 8.8.C. Penalties for Due Diligence Violations and Gaps

Default Claims

The penalties of interest limitation and guarantee cancellation on loans that have incurred due diligence violations and/or gaps are as follows:

1. If there are no due diligence violations of 6 days or more (21 days or more in the case of a transfer) and no gap of 46 days or more (61 days or more in the case of a transfer), the guarantor will purchase a claim on the loan and the lender will not incur an interest penalty. This provision is applicable to all time frames and activities described in 34 CFR 682.411.

2. If there are one or two due diligence violations of 6 days or more each (21 days more in the case of a transfer) and no gap of 46 days or more (61 days or more in the case of a transfer) and the lender completed all the required collection activities before the claim filing deadline, the activities will be considered to have been made up. However, any made-up collection activity for an endorser will not be assessed a violation (see subsection 8.1.E.). The guarantor will calculate the purchase of the claim on the outstanding principal and the interest that accrued through the date of default. Interest benefits and special allowance are limited to the amounts that accrued through the date of default; the lender must make appropriate adjustments to its ED Form 799 billing.

3. If there are one or two due diligence violations of 6 days or more each (21 days or more in the case of a transfer) and no gap of 46 days or more (61 days or more in the case of a transfer), but the lender did not complete the required collection activities before the claim filing deadline, the guarantor will calculate (except as noted in the following paragraph) the purchase of the claim based on the outstanding principal balance and the interest that accrued through the 90th day before default. Interest benefits and special allowance are limited to the amounts that accrued through the 90th day before default; the lender must make appropriate adjustments to its ED Form 799 billings.

   If the failure to submit a request for preclaim assistance by the 240th day of delinquency is one of the due diligence violations under item 2 or 3 above, the guarantor will purchase the claim. However, the lender will not be entitled to receive interest, interest benefits, and special allowance for the most recent 180 days preceding the date on which the loan defaulted. The lender should make the appropriate adjustments to its ED Form 799 billings.

4. If there are three or more due diligence violations of 6 days or more each (21 days or more in the case of a transfer) and no gap of 46 days or more (61 days or more in the case of a transfer), the guarantee on the loan will be canceled effective with the date of the earliest unexcused violation. The lender may cure the loan but must immediately stop billing the Department for interest benefits and special allowance payments and must refund any interest benefits and special allowance payments received since the date of the earliest unexcused violation (see subsection 8.8.H.).

5. If there is a gap of 46 days or more (61 days or more in the case of a transfer) and one or more violations, the guarantee on the loan will be canceled effective with the date of the earliest unexcused violation. The lender may cure the loan but must immediately stop billing the Department for interest benefits and special allowance payments and must refund any interest benefits and special allowance payments received since the date of the earliest unexcused violation (see subsection 8.8.H.).

6. Any period for which all or a portion of the payment history of a loan is missing is treated as a serious due diligence violation—one that results in a loss of guarantee on the loan. The lender also loses the right to collect interest benefits and special allowance payments from the scheduled date of the earliest unrecorded payment until the violation is cured (see subsection 8.8.I.).

7. If the lender fails to establish a first payment due date within the time frames specified (see subsection 7.4.B.), the lender may incur a violation. If the actual first due date is 46 days or more after the latest date on which the due date should have been set, the loan loses its insurance. The lender must refund special allowance received for the period beginning 46 days after the latest date on which the first due date should have been established.
[§682, Appendix D; DCL 96-L-186/96-G-287, Q&As #47 and #62]

Non-Default Claims

If a lender incurs a due diligence violation that results in a loss of guarantee and, as of the date it learned that the borrower filed bankruptcy, the violation is not yet cured, the lender may attempt to cure the violation only if the bankruptcy action has been concluded and the loan was not discharged, dismissed, or the bankruptcy action in which the loan was previously discharged has been reversed. If the violation is subsequently cured, interest benefits and special allowance will be limited to those amounts accruing through the date of the earliest unexcused violation and will restart on the date that the loan is cured. Under no circumstances will a guarantor purchase a bankruptcy claim if, before the lender determines that the borrower has filed a bankruptcy petition, the lender committed a due diligence violation that resulted in a loss of guarantee and that was not cured before receiving notification of the bankruptcy filing.

There is no cure for due diligence violations on loans for which a death or disability claim is filed. If the violations are not cured before the date of the death or disability notification, the lender must discharge the loan—even though the balance will not be reimbursed by the guarantor.

For closed school and false certification claims, due diligence is not monitored. Therefore, no due diligence violations will be assessed.

For ineligible borrower claims, the only due diligence monitored is ineligible borrower collection activity after notification. Therefore, no due diligence violations will be assessed for any delinquency preceding notification of ineligibility.

Some guarantors have additional policies on monitoring due diligence before ineligibility. These policies are noted in appendix C.

In the case of a loan filed by a lender or servicer that has been designated an exceptional performer by the Department, no penalties will be assessed for due diligence violations.

Some guarantors have additional or alternate requirements regarding penalties for due diligence violations and gaps. These requirements are noted in appendix C.

Due Diligence Violations Associated with Address Skip Tracing Requirements

If a lender did not initiate address skip tracing within 10 days of the date the lender learned that it did not know the correct address of the borrower but does complete all required activities before the date of default and has no gap of 46 days or more, one due diligence violation will be assessed. The guarantor will purchase outstanding interest that accrued through the date of default.

If the lender fails to complete skip tracing activities by the date of default but does complete all required activities before a timely claim is filed and has no gap of 46 days or more, one due diligence violation will be assessed. The guarantor will purchase outstanding interest that accrued through the date of default.

If the lender both fails to initiate address skip tracing within the 10-day time frame and fails to complete skip tracing activities by the date of default but does complete all required activities before a timely claim is filed and has no gap of 46 days or more, only one due diligence violation will be assessed. The guarantor will purchase outstanding interest that accrued through the date of default.

If a lender performs some—but not all—required skip tracing activities and has no gap of 46 days or more, regardless of whether or not the address skip tracing was initiated within 10 days of the date the lender learned that it did not know the correct address for the borrower, one due diligence violation will be assessed and the guarantor will purchase outstanding interest that accrued through the 90th day before default.

If no skip tracing activity is performed, the guarantor will return the claim for loss of guarantee. If the lender completes the skip tracing requirements and the claim is resubmitted within the time frames associated with the claim return (see subsection 8.8.E.), the guarantor will assess penalties as follows:

- If all required skip tracing activities are completed, one due diligence violation will be assessed and the guarantor will purchase outstanding interest that accrued through the date of default.

- If some—but not all—required skip tracing activities are completed, two due diligence violations will be assessed (one for "untimely" completion of the skip tracing activities and one for the skip tracing activities being incomplete). The guarantor will purchase outstanding interest that accrued through the 90th day before default.

- If a claim is resubmitted with no skip tracing activity performed, three due diligence violations will be assessed, resulting in the cancellation of the guarantee.

Due Diligence Violations Associated with Telephone Skip Tracing Requirements

If a lender performs some—but not all—required skip tracing activities and has no gap of 46 days or more, one due diligence violation will be assessed and the guarantor will purchase outstanding interest that accrued through the 90th day before default.

If no skip tracing activity is performed, the guarantor will return the claim for loss of guarantee. If the lender completes the skip tracing requirements and the claim is resubmitted within the time frames associated with the claim return (see subsection 8.8.E.), the guarantor will assess penalties as follows:

- If all required skip tracing activities are completed, one due diligence violation will be assessed and the guarantor will purchase outstanding interest that accrued through the date of default.

- If some—but not all—required skip tracing activities are completed, two due diligence violations will be assessed (one for "untimely" completion of the skip tracing activities and one for the skip tracing activities being incomplete). The guarantor will purchase outstanding interest that accrued through the 90th day before default.

- If a claim is resubmitted with no skip tracing activity performed, three due diligence violations will be assessed, resulting in the cancellation of the guarantee.

CCI 8.8.D. Timely Claim Filing Violations

A lender will incur a timely filing violation if it fails to submit:

- A default claim by the 270th day of delinquency. [§682.406(a)(5)]

- A death claim within 60 days after receiving the borrower's or student's death certificate or other acceptable proof of death. [§682.402(g)(2)(i)]

- A disability claim within 60 days after receiving the physician's certification of the borrower's total and permanent disability. [§682.402(g)(2)(i)]

- A bankruptcy claim within 30 days after receiving notification that the borrower has filed a bankruptcy petition—unless the lender receives information indicating that the loan may be determined to be dischargeable due to undue hardship. If the loan is dischargeable due to undue hardship, the lender must file a bankruptcy claim within 15 days of receiving that notification or, if the lender secured an extension of time within which to respond, 25 days before the expiration of that extended period. [§682.402(g)(2)(iv)]

- An ineligible borrower claim within 120 days after the date on which the final demand letter was mailed to the borrower and the borrower did not respond. [§682.406(a)(5)]

- A closed school claim within 60 days after receiving the borrower's written request for discharge. [§682.402(g)(2)(ii)]

- A false certification claim within 60 days after receiving the borrower's written request for discharge. [§682.402(g)(2)(iii)]

If a guarantee is canceled as the result of a timely filing violation, the cancellation is effective on the date the filing deadline expires.

CCI 8.8.E. Penalties for Timely Claim Filing Violations

Original Filing Deadline

Default Claims
Submission of a default claim between the 240th and 270th day of delinquency will result in loss of eligibility for special allowance beyond the 240th day of delinquency. Failure to submit a default claim by the 270th day of delinquency will result in cancellation of the guarantee on the loan. However, the lender may cure the violation and resubmit the claim if the default remains unresolved after the loan has been cured (see subsection 8.8.J.).

Death Claims
Although a lender must submit a death claim within the required 60-day time frame, failure to do so does not affect the guarantor's ability to collect on the loan. Therefore, if the lender did not incur violations resulting in a noncurable cancellation of the guarantee before determining that the borrower or student died, the guarantor will purchase the claim. However, interest will be limited to the amount that accrued through the 60-day filing period, subject to any interest penalties. The lender also will be required to repay all interest benefits and special allowance payments received on the loan for periods after the expiration of the 60-day filing period. If the lender incurs a timely claim filing or due diligence violation that results in the cancellation of the guarantee on the loan before the date it determined that the borrower or student died, the guarantee on the loan will be canceled, and the lender will be prohibited from attempting to collect on the loan or curing the violation.

Disability Claims
If a disability claim is not filed within the required 60-day filing period, the guarantor will purchase the claim—provided the lender did not incur violations that resulted in a noncurable cancellation of the guarantee before receiving certification of the borrower's disability. However, the claim will be subject to an interest penalty, and the lender will be required to repay all interest benefits and special allowance payments for amounts received or otherwise payable after the 60-day filing period. If the lender incurs a timely claim filing or due diligence violation that results in the cancellation of the guarantee on the loan before the date it determined that the borrower became disabled, the guarantee on the loan will be canceled, and the lender will be prohibited from attempting to collect on the loan or curing the violation.

Bankruptcy Claims
Failure to submit a bankruptcy claim by the end of the applicable 30-day, 15-day, or 25-day filing deadline will result in permanent cancellation of the guarantee on the loan—unless the lender can demonstrate that *(a)* the bankruptcy action has concluded and the loan was not discharged, or *(b)* the bankruptcy action in which the loan was previously discharged has been reversed or dismissed. In either case, the lender need not cure the violation. The lender must return the loan to the status that would have existed had the bankruptcy action not occurred and resume servicing the loan. If the loan is returned to repayment status, the lender should grant an administrative forbearance to resolve any delinquency that exists at the time the loan reenters repayment.

The claim, if purchased, will be subject to an interest penalty, and the lender will be required to repay all interest benefits and special allowance payments for amounts received or otherwise payable from the expiration of the initial applicable 30-day, 15-day, or 25-day filing deadline through the earlier of the date on which the claim is filed as a different claim type or the date on which the loan regains its insurance. The loan is considered to regain its insurance on the date that the bankruptcy action concludes and the loan is not discharged or the date on which the discharge is reversed.
[DCL 96-L-186/96-G-287, Q&As #67 and #73]

Ineligible Borrower Claims
If an ineligible borrower claim is not submitted within the specified 120-day time frame (see subsection 8.2.F.), or the final demand letter is not mailed in a timely manner (see subsection 8.1.M.), the guarantor will purchase the claim. However, the claim will be subject to an interest penalty as follows:

- If the final demand letter is mailed timely but the claim is filed *untimely*, the claim will be paid, but interest will be limited to the amount accruing through the 120th day following the date the final demand letter is mailed.

- If the final demand letter is mailed *untimely*, interest will be limited to the amount accruing through the 180th day following the date the lender determines the borrower to be ineligible.

In all cases, the lender must repay any interest benefits paid by the Department of Education on the ineligible portion of the loan.

Closed School and False Certification Claims
If a closed school or false certification forgiveness claim is not filed within the required 60-day filing period, the guarantor will purchase the claim. However, the claim will be subject to an interest penalty, and the lender will be required to repay all interest benefits and special allowance payments for amounts received or otherwise payable after the 60-day filing period.

Claims Filed by Exceptional Performers
No penalties will be assessed for timely filing violations in the case of a claim filed by a lender or servicer that has been designated an exceptional performer by the Department.

Refile Deadline

Default Claims
Resubmission of a default claim on the 31st through the 60th day inclusive after the lender's receipt of the original return will result in loss of eligibility for interest, interest benefits, and special allowance payments beyond the 30th day after the original return. Failure to resubmit the claim by the 60th day after the lender's receipt of the original return will result in cancellation of the guarantee on the loan. However, the lender may cure the violation and resubmit the claim if the default remains unresolved after the loan has been cured (see subsection 8.8.J.).

A second or subsequent return by the guarantor for the same reason will result in loss of eligibility for interest, interest benefits, and special allowance payments beyond the 30th day after the lender's receipt of the original return, provided the original return was resubmitted on or before the 60-day refiling deadline. Failure to resubmit a second or subsequent return claim by the 60th day after the lender's receipt of such second or subsequent return will result in cancellation of the guarantee on the loan.
[DCL 96-G-287/96-L-186, Q&As #36 and #37]

> EXAMPLE
> The lender receives a claim returned by the guarantor for a missing promissory note. The lender resubmits the claim to the guarantor 15 days after its receipt of the claim but fails to include the missing promissory note. The guarantor returns the same claim a second time for the missing promissory note. The lender resubmits the claim to the guarantor 20 days after its receipt of the claim again, this time including the requested promissory note. In this case, the lender has incurred loss of eligibility for interest, interest benefits, and special allowance payments beyond the 30th day after the lender's receipt of the original return.

A second or subsequent return by the guarantor for a *different* reason will result in no loss of eligibility for interest, interest benefits, and special allowance payments provided the lender resubmits the claim on or before the 30th day after its receipt of the second or subsequent return. Failure to resubmit a second or subsequent return claim by the 60th day after the lender's receipt of such second or subsequent return will result in cancellation of the guarantee on the loan.

> EXAMPLE
> The lender receives a claim returned by the guarantor for documentation supporting the lender's out-of-school date. The lender resubmits the claim with the required documentation to the guarantor 15 days after its receipt of the claim. The guarantor returns the same claim a second time—this time for missing due diligence activities. The lender resubmits the claim to the guarantor with the requested due diligence activities 20 days after its receipt of the returned claim. No loss of eligibility for interest, interest benefits, and special allowance payments are incurred for timely resubmission of the first and second return.

Death, Disability, Closed School, False Certification, and Ineligible Borrower Claims
Failure to resubmit a death, disability, closed school, false certification, or ineligible borrower claim by the 30th day after the lender's receipt of the original return will result in loss of eligibility for interest, interest benefits, and special allowance payments beyond such 30th day. If the claim is not resubmitted by the 60th day, the claim will be paid, but the lender's eligibility for interest subsidy and special allowance will end as of the 30th day after the lender's receipt of the original return.

A second or subsequent return by the guarantor for the same reason, will result in loss of eligibility for interest, interest benefits, and special allowance payments beyond the 30th day after the lender's receipt of the original return.

> EXAMPLE
> The lender receives a claim returned by the guarantor for a missing promissory note. The lender resubmits the claim to the guarantor 15 days after its receipt of the returned claim, but fails to include the missing promissory note. The guarantor returns the same claim a second time for the missing promissory note. The lender resubmits the claim to the guarantor 20 days after its receipt of the returned claim, this time including the requested promissory note. In this case, the lender has incurred loss of eligibility for interest, interest benefits, and special allowance payments beyond the 30th day after the lender's receipt of the original return.

A second or subsequent return by the guarantor for a *different* reason will result in no loss of eligibility for interest, interest benefits, and special allowance payments provided the lender resubmits the claim on or before the 30th day after the lender's receipt of such second or subsequent return.

> EXAMPLE
> The lender receives a claim returned by the guarantor for documentation to support the borrower's total and permanent disability. The lender resubmits the claim with the supporting documentation to the guarantor 15 days after its receipt of the returned claim. The guarantor returns the same claim a second time for a missing promissory note. The lender resubmits the claim with the requested promissory note to the guarantor 20 days after its receipt of the returned claim. No loss of eligibility for interest, interest benefits, and special allowance payments is incurred for timely resubmission of the first and second returns.

Bankruptcy Claims
Failure to resubmit a bankruptcy claim by the 30th day after the lender's receipt of the original return will result in loss of eligibility for interest, interest benefits, and special allowance payments beyond such 30th day, provided the late refiling has not resulted in the guarantor missing any court-established deadlines for bankruptcy activity. If the late refiling has resulted in the guarantor missing any court-established deadlines for bankruptcy, the result will be permanent cancellation of the guarantee on the loan—unless the lender can demonstrate *(a)* that the bankruptcy action has concluded and the loan was not discharged or *(b)* that the bankruptcy action in which the loan was previously discharged has been reversed or dismissed. In either case, the lender need not cure the violation; however, the loan is not eligible for interest or special allowance from the timely refiling deadline through the date the bankruptcy action was discharged, dismissed, or reversed. The lender must return the loan to the status that would have existed had the bankruptcy action not occurred and resume servicing the loan. If the loan is returned to repayment status, the lender should grant an administrative forbearance on the loan to resolve any delinquency that exists at the time the loan reenters repayment.

Some guarantors may have different requirements for the refiling of bankruptcy claims. These exceptions are noted in appendix C.

Claims Filed by Exceptional Performers
No penalties will be assessed for timely filing violations in the case of a claim filed by a lender or servicer that has been designated an exceptional performer by the Department.

CCI 8.8.F. Reinstatement of the Guarantee: Cure Procedures

A lender may have the guarantee on a loan reinstated by curing the applicable violation, except in the circumstances noted in the preceding subsection 8.8.E. Upon reinstatement of a loan's guarantee, the lender is again eligible to receive claim payments, interest benefits, and special allowance payments on the loan; the lender is ineligible to receive these payments from the date of the first unexcused violation to the date of the cure. The date of the cure is the date the lender receives a new repayment agreement signed by the borrower or one full payment. If a default claim is submitted after the cure, the interest-paid-through date (IPT date) must be adjusted to exclude the amount of nonreinsured interest not paid by the borrower from the claim or, if the interest was capitalized, the amount of capitalized interest that is not insured.

Unless the lender successfully obtains a signed repayment agreement or a full payment from the borrower before completing the intensive collection activities (ICA)/location cure procedure (see subsection 8.8.K.), completing this cure procedure does not result in reinstatement of the guarantee on the loan. A full payment is defined as a payment by the borrower or another person (other than the lender) on the borrower's behalf in an amount equal to or greater than the regularly scheduled payment amount required under the existing loan terms, exclusive of any forbearance agreement in force at the time of default. The $5 tolerance is not applicable to a curing payment. For example, if the original repayment schedule called for $50 monthly payments, but a forbearance was in effect at the time of default that allowed the borrower to pay $25 monthly, a full payment would be considered $50 (in accordance with the original repayment agreement). Further, a curing payment may be received in increments. If the guarantee is lost and the lender receives a partial payment equal to the amount of one full payment, the partial payment may constitute a full payment and the cure date may be considered the date on which the lender receives the payment that completes the full payment requirement.
[§682, Appendix D; DCL 96-L-186/96-G-287, Q&A #63]

For the lender's receipt of a new repayment agreement (original, photocopy, or facsimile) signed by the borrower to constitute a cure, both the lender and borrower must agree to the terms. Furthermore, the terms of the new agreement must comply with the applicable repayment limitation and minimum annual payment requirement. If the borrower signs the agreement but makes immaterial alterations (for example, changes to his or her name, social security number, or address), the lender must review the changes and make the necessary alterations to the account, but may consider the account cured.

If the borrower signs the agreement and makes material alterations (for example, changes to the repayment schedule information), the document does not generally constitute a cure. However, if the lender agrees to the material alterations, the signed agreement may be considered a cure.

If the lender receives a full payment or a new repayment agreement signed by the borrower, the guarantee on the loan is reinstated. The lender must treat the loan as current, establish a next payment due date that is within 45 days of the date the lender receives the signed repayment agreement or one full payment, and immediately resume servicing on the loan. The loan regains eligibility for interest benefits and special allowance payments from the date of the cure. Also, interest accrued from the date of the earliest unexcused violation through the guarantee reinstatement date may be capitalized through an administrative forbearance or cure forbearance. However, the lender will not be reimbursed for this amount of capitalized interest if it later submits a claim on the loan. The lender will be permitted to extend the applicable repayment period by the length of the cure forbearance.

To have the guarantee on a loan reinstated, the lender should notify the guarantor of the completion of the curing activity, submit a request for reinstatement of the guarantee, and provide any required documentation. A copy of the curing instrument must be retained by the lender and included in any subsequent claim file.

A lender must complete the prescribed cure activities or reinstate a loan's guarantee no more than 3 years from:

- The last date the loan could have been filed timely as a claim with the guarantor, if the claim was not filed.
- If the claim was filed, the date the guarantor returned the claim for loss of guarantee.

The prescribed cure activities are considered complete as of the date a full payment or a signed repayment agreement is received by the lender or, in the case of intensive collection activities (ICA)/location cure procedures, on the date the default claim is filed. Failure to complete the prescribed activities or reinstate a loan's guarantee by the end of the 3-year period will result in an irrevocable loss of the loan's reinsurance.
[DCL 96-L-186/96-G-287, Q&A #72]

CCI 8.8.G. Amount of Interest Purchased on Cured Claims

In the case of a claim on a loan for which a cure procedure was performed, interest will be purchased as follows—depending on whether performance of the cure procedure resulted in the reinstatement of the guarantee on the loan:

- If the violation was cured and the guarantee was reinstated based on the receipt of one full payment or a new repayment agreement signed by the borrower, interest will be purchased up to the date of the earliest unexcused violation and from the reinstatement date (the date the loan was cured) through the date the guarantor purchases the claim, subject to any further interest penalties or limitations that apply.
- If the violation was cured, but the guarantee was not reinstated—upon completion of the intensive collection activities (ICA)/location cure procedure, which is outlined in subsection 8.8.K.—interest will be purchased from the interest-paid-through date (IPT date) through the earliest unexcused violation date.

Any unpaid interest accruing after the date of the earliest unexcused violation, after the date of the last payment received before the cure is accomplished, and before the date of reinstatement of the guarantee will not be purchased. The lender may capitalize the interest that accrued from the date of the earliest unexcused violation through the reinstatement date (for the period of noninsurance). However, the lender will not be reimbursed for this amount as part of any future claim payment. It is the lender's responsibility to ensure that the appropriate adjustment is made (for example, adjusting the IPT date forward to deduct such interest before submitting a request for claim payment). If it appears that the lender has not deducted interest capitalized for the period of noninsurance, the guarantor will either return the claim for correction or make any necessary adjustments on the lender's behalf.
[§682, Appendix D]

CCI 8.8.H. Cure Procedure for Due Diligence Violations and Gaps

If a loan's guarantee has been canceled as a result of due diligence violations or gaps, the lender has the following two options to reinstate the guarantee on the loan. The severity of the violations or gaps determines which of the options is appropriate for the lender. If the lender has committed both due diligence and timely filing violations and the due diligence violations also require a cure, the lender must attempt to cure the loan according to the appropriate due diligence cure procedure (rather than the cure procedure for timely claim filing violations).

- *Option 1:* If there have been three violations and no gaps of 46 days (61 days in the case of a transfer), the lender must meet one of the following requirements:
  - Obtain a full payment or a new repayment agreement signed by the borrower.
  - Locate the borrower and perform the intensive collection activities (ICA)/location cure procedure described in subsection 8.8.K.
- *Option 2:* If there have been more than three violations of at least 6 days (21 days in the case of a transfer) or a gap of 46 days or more (61 days in the case of a transfer), the lender must obtain one full payment or a new repayment agreement signed by the borrower.

If the lender is successful in obtaining a full payment or a new repayment agreement signed by the borrower, the guarantee on the loan is reinstated. As indicated in subsection 8.8.F., the lender must treat the loan as current, establish a next payment due date that is within 45 days of the cure date, and immediately resume servicing on the loan. Interest benefits and special allowance are reinstated from the date of the cure.

Inadvertent Cures

As a lender services a loan, violations may occur that would cause a loan to lose its guarantee. In some cases, these violations may go undetected. If a payment or other curing instrument (e.g., a new repayment agreement signed by the borrower, or a forbearance form with repayment agreement included in the text signed by the borrower) is received after such a period, that payment or other curing instrument may inadvertently cure all prior violations. Such a situation is called an inadvertent cure. If the payment or other curing instrument is not used to bring the account current, the guarantor will review the claim based on the appropriate due diligence requirements.

CCI 8.8.I. Missing Payment History

A guarantor views a period of missing payment history as a serious due diligence violation that must be cured, regardless of the length of the period. A loss of guarantee on a loan will result during any period for which all, or a portion of, the payment history is missing. Although the lender is not required to reconstruct the missing payment history, the lender may deem it necessary in the event a borrower disputes the balance of the loan.

If the borrower does not dispute the amount owed for the missing period, the violation may be cured by the receipt of either one full payment or a new repayment agreement signed by the borrower that complies with the terms of the promissory note.

If the borrower disputes the amount owed for the missing period, the lender must do one of the following to reinstate the guarantee, in addition to curing the violation through the receipt of either a full payment or a new, signed repayment agreement:

- Provide adequate documentation to support the amount owed in accordance with the period of missing payment history. Adequate documentation may include:
  - Canceled checks for the missing payments.
  - A reconstructed payment history reflecting approximately the same ending principal balance that the borrower would owe if all payments were made on time and the borrower does not claim to have made prepayments.
  - A record of the missing payment history.
- Reach an agreement with the borrower in writing as to the correct amount owed. The signed repayment agreement may satisfy this requirement if it clearly states the balance owed. Interest benefits and special allowance may be billed only on the undisputed balance.

If the lender is unsuccessful in resolving the dispute (for example, it is unable to provide adequate documentation or reach an agreement with the borrower) but otherwise cures the violation by receiving a full payment or signed repayment agreement that does not include the amount owed, the guarantee will be reinstated on the undisputed amount.

Interest benefits and special allowance payments received from the date of the earliest unexcused violation through the date of the cure must be refunded to the Department by the lender. To make these adjustments, the lender must calculate the borrower's outstanding indebtedness for the period of missing payment history. As noted, the lender may need to reconstruct a payment history for the missing period but will not be required to include this reconstructed history in a claim file. If a claim is later filed on the loan, the lender may be required to include a statement certifying that the required billing adjustments have been made. The lender must ensure that it does not include in its claim payment request the amount of any repayment interest corresponding to the period of missing payment history.

Some guarantors have additional policies addressing when a current holder is missing payment history from a prior holder. These policies are noted in appendix C.

CCI 8.8.J. Cure Procedure for Timely Filing Violations

If a lender incurs a timely filing violation on a default claim, the lender may reinstate the guarantee through one of the following:

- The receipt of a full payment.
- The receipt of a new repayment agreement signed by the borrower.
- Successful completion of the intensive collection activities (ICA)/location cure procedure (see the following subsection 8.8.K.).

If the lender obtains a full payment or a new repayment agreement signed by the borrower, the guarantee on the loan is reinstated. As indicated in subsection 8.8.F., the lender must treat the loan as current, establish a next payment due date that is within 45 days of curing the violation, and immediately resume servicing of the loan. Interest benefits and special allowance will be reinstated as of the date of the cure.

If the lender performs the ICA/location cure procedure but is not successful in obtaining a full payment or a new repayment agreement signed by the borrower, it must file a claim with the guarantor within 60 days of completing these activities. The guarantor will purchase the claim for the loan's outstanding principal balance, but interest will be limited to that accruing through the date of the timely filing deadline, subject to any further interest penalties or limitations that apply.

CCI 8.8.K. Intensive Collection Activities (ICA)/ Location Cure Procedure

A lender must complete all of the following activities when attempting to cure a violation on an eligible borrower's loan using the intensive collection activities (ICA)/location cure procedure:

1. Locate the borrower through certification of the borrower's location (see the following subsection 8.8.L.).

2. Send the borrower, within 15 days of locating the borrower, a new repayment agreement for the borrower to sign and a forceful collection letter describing the consequences of default and its potential effect on the borrower's credit rating. The borrower must be given 15 days to respond to the letter by either making a full payment or signing and returning the new repayment agreement.

3. Make a diligent attempt to contact the borrower by telephone within 5 days thereafter (if the borrower does not respond within the required 15-day time frame).

4. Make another diligent attempt to contact the borrower by telephone within 5 to 10 days of completing the activity described in item 3 above.

5. Send a forceful collection letter within 5 to 10 days after completing the telephone contact efforts described in item 4, demanding that the entire unpaid balance of the loan be repaid immediately. The letter also should warn the borrower that the lender will file a default claim with the guarantor if the borrower fails to contact the lender to make arrangements or repay the loan within 30 days of the date of the letter.

   There is no 5-day tolerance regarding performance of ICA/location cure activities.

6. File a default claim within 31 to 60 days after mailing the final collection letter described in item 5 (if the borrower fails to make a full payment or sign a new repayment agreement by the 30th day after the lender mails the final collection letter). If the guarantor purchases the claim, the amount of the claim payment will be calculated based on the amount of the outstanding principal and interest accrued through the date of the earliest unexcused violation. However, because the violation is not considered cured, the lender does not regain the right to collect (and thus must refund) interest benefits and special allowance payments that would otherwise have been payable from the date of the earliest unexcused violation before the guarantee cancellation date.

If the lender discovers that the borrower's telephone number is invalid while performing the ICA/location cure procedure, the lender must attempt to obtain a valid number as it continues performing the remaining collection activities, as required in the ICA/location cure procedures.

The lender must complete the entire cycle of collection activities required under this cure procedure. If the lender has exhausted its efforts to obtain a valid number, telephone attempts to contact the borrower are not required, but the lender must send the required collection letters. The letters may be sent according to the regular ICA/location cure procedure schedule (allowing for the time that would normally be allocated to telephone attempts) or the schedule may be shortened by omitting those times. In either case, the lender must indicate whether it obtained a valid telephone number for the borrower on the Certification of Borrower Location that is required upon locating the borrower (see the following subsection 8.8.L.).

If, at any time on or before the 30th day after the lender completes the preceding collection efforts, the lender receives payment in full of the ineligible portion of the loan, the payment should be applied as a prepayment to the borrower's loan. Any eligible portion of the loan will be reguaranteed and should be treated as current.

CCI 8.8.L. Certification of Borrower Location

The following documentation is the only acceptable evidence that the borrower has been located:

- A postal or courier receipt, signed by the borrower no earlier than 15 days before the date on which the lender sent the new repayment agreement, indicating acceptance of correspondence from the lender by the borrower at the address shown on the receipt.

- Documentation submitted by the lender showing the lender's name, lender identification number (LID), and the address of the lender; the borrower's name and social security number; and a certification of borrower location signed by an employee or agent of the lender certifying that:

  - On a specified date, an employee spoke with or received written communication from the borrower, parent, spouse, sibling, roommate, or neighbor of the borrower.

  - The address and telephone number of the borrower was provided to the lender in the call or letter. If the borrower's address or telephone number was provided to the lender by someone other than the borrower, the lender also must certify that the new repayment agreement and collection letter sent as part of the intensive collection activities (ICA)/ location cure procedure was not returned as undeliverable as of the date the default claim is filed on the cured loan.

If the borrower is located, the lender must include a copy of the certification of borrower location in any subsequent ICA/location claim file.

CCI 8.9 Reinstatement of Borrower Eligibility after a Default Claim Is Purchased

A borrower with one or more defaulted Title IV loans may have his or her eligibility for Title IV aid reinstated by making satisfactory payment arrangements and fulfilling those arrangements with the holder of each defaulted loan. A borrower who receives loan funds for which he or she is ineligible due solely to his or her error may not have Title IV eligibility reinstated until the ineligible funds are repaid in full.

A borrower may receive benefit from this provision only once; if a borrower has his or her eligibility reinstated and then fails to maintain satisfactory payment arrangements on that defaulted loan, the borrower is not eligible for a second reinstatement. An opportunity for reinstatement may be made available to a borrower regardless of whether any of the borrower's defaulted loans have been repurchased by an eligible lender.

To have eligibility for Title IV aid reinstated, a borrower must make 6 consecutive full monthly payments to the appropriate holder for each defaulted loan. These payments must be made on time (within 15 days of the payment due date), voluntarily (directly by the borrower, regardless of whether there is a judgment against the borrower), and must be reasonable and affordable. Any court-ordered payments or involuntary payments obtained by tax offsets, wage garnishment, or income or asset execution will not count toward the 6 payments required for reinstatement. A lump sum prepayment of future installments does not satisfy the requirement for 6 consecutive monthly payments and will not reinstate a borrower's Title IV eligibility.

To determine whether a borrower qualifies for reinstatement of Title IV eligibility, the guarantor will review the most recent 6-month period. Each of the 6 required payments must be received within 15 days of the due dates for the 6 months immediately preceding the date the guarantor receives the borrower's new loan application and promissory note or request for reinstatement.

If the school is informed that the borrower has defaulted on a prior loan, the school must obtain, before certifying the borrower's eligibility for a new loan, documentation from the borrower or the holder of the loan that the borrower has made the required payments on any defaulted loan(s). The documentation must include a certification from the guarantor regarding each defaulted loan. The documentation must be attached to the new loan application when it is sent to the guarantor for guarantee processing, unless the information is already available to the guarantor. For additional requirements regarding reinstatement of Title IV eligibility, see subsection 5.2.E.
[§682.401(b)(4); April 1996 Supplement to DCL 96-G-287/96-L-186, Q&A #6.]

CCI 8.10 Rehabilitation of Defaulted Loans

A borrower may rehabilitate a defaulted loan by making satisfactory repayment arrangements with the guarantor or a collection agency acting on its behalf. A borrower who receives loan funds for which he or she is ineligible due solely to his or her error may not rehabilitate the ineligible funds or otherwise have his or her Title IV eligibility reinstated until the ineligible funds are repaid in full.

To be eligible for rehabilitation, a borrower must make 12 consecutive on-time (received within 15 days of the due date) full monthly payments to the guarantor or its contracted vendor. Payments must be made voluntarily by the borrower and must be equal to or greater than the amount determined to be reasonable and affordable. Payments obtained by tax offsets, wage garnishment, trustee payments, or income or asset execution will not satisfy requirements for rehabilitation.

The 12 payments must be received during the 12 months immediately preceding the rehabilitation of the defaulted loan. Payments will be considered voluntary if made directly by the borrower, regardless of whether there is a judgment against the borrower. A lump sum prepayment of future installments cannot be used to satisfy the 12 consecutive payment requirement. If the borrower fails to send a payment on time during any of the 12 months during which payments are required for rehabilitation, he or she must begin the entire 12-month cycle again. A new 12-month cycle will begin from the time a new, on-time, voluntary, reasonable and affordable payment is received—regardless of any prepayments of future installments the borrower may have made.

The guarantor will make the determination of what constitutes a reasonable and affordable payment based on each borrower's financial circumstances. Factors to be considered include the borrower's monthly income (and that of his or her spouse, if applicable), the monthly expenses of the borrower and any spouse or dependents, and the unpaid balance on all FFELP loans held by other holders. If the borrower's reasonable and affordable payment is determined to be less than $50 or the amount of the accruing interest on the borrower's loan(s), the guarantor will document the basis for the determination and retain it in the borrower's file, which will be forwarded to the purchasing lender.

A guarantor will assist a borrower in securing the purchase of each defaulted loan by an eligible lender only after:

1. The borrower satisfies his or her obligation to make 12 monthly payments, as prescribed above.

2. The borrower authorizes the guarantor to capitalize collections costs.

3. The borrower requests assistance in obtaining a rehabilitation repurchase.

4. The guarantor determines that the borrower is a good candidate for rehabilitation. A borrower may not be considered a good candidate for rehabilitation if he or she will be required to make monthly payments after the rehabilitation that are considerably higher than the amount determined to be reasonable and affordable for the borrower.

5. The borrower signs a new promissory note for any loan on which a judgment has been entered. A judgment that was obtained against the borrower is considered satisfied when the affected loan(s) is rehabilitated and purchased by an eligible lender. Lenders purchasing loans on which a judgment has been rendered must include in that purchase all costs associated with the judgment, including court costs. These amounts may be added to the principal balances of the loans.

If the guarantor is unable to secure a lender, the borrower will be responsible for obtaining an eligible lender to purchase his or her defaulted loan(s).

The guarantor or its contracted vendor acting on its behalf will notify the borrower of repayment terms, including what has been determined to be the reasonable and affordable payment amount. If the borrower's financial circumstances change after the determination, the borrower may request that the repayment terms be adjusted. The borrower must include documentation substantiating his or her request for a recalculation of the reasonable and affordable payment amount previously established.

Upon purchase of a loan by an eligible lender, the guarantor will report the loan to national credit bureaus as no longer in default, and the loan will be considered rehabilitated. On a loan for which a judgment was obtained, the guarantor will report the satisfaction of that judgment.
[§682.405(a)]

A lender that purchases a rehabilitated loan must immediately establish a repayment schedule with the borrower that meets the requirements applicable to other FFELP loans of the same type. The schedule must be sent to the borrower within 60 days of receiving the loan file, and the first payment due date must be within 75 days of receipt of that file. The lender must consider the first payment made under the 12 consecutive monthly payments required for rehabilitation as the first payment under the applicable maximum repayment period for the loan type (for example, a borrower would have a maximum repayment period of 9 years remaining on a loan with a 10-year repayment period, and a Consolidation loan borrower with a balance greater than $60,000 would have a maximum repayment period of 29 years, because the 12 consecutive monthly payments are considered the first year of a repayment term). The initial repayment schedule must provide for monthly payments that are greater than or equal to the average of the 12 consecutive monthly payments received by the guarantor. The guarantor will provide payment history information (such as payment amounts and dates when the loan was in a default status) with the loan documentation sent to the purchasing lender to assist in the accurate conversion to repayment. A rehabilitated loan retains the same interest rate and deferment provisions that were applicable when the loan was first disbursed and repayment terms and all other benefits applicable to other FFELP loans made under the same loan type.
[§682.405]

Some guarantors provide additional documentation to lenders that purchase rehabilitated loans. These provisions are noted in appendix C.

The borrower regains eligibility for deferment only to the extent that he or she has not already exhausted those deferment privileges before his or her initial default. For example, a borrower who was initially eligible for 24 months of unemployment deferment, and who used 12 months of that eligibility before his or her default, would be eligible to defer the rehabilitated loan for only 12 months due to any future unemployed status.

CCI 8.11 Preclaim Request Form

The Preclaim Request Form (see appendix F) is designed to be used by a lender as a request for preclaim assistance. On the basis of this request, the guarantor also will initiate supplemental preclaim assistance, unless otherwise notified by the lender. All loans included on the Preclaim Request Form must have the same loan type, due date, and interest-paid-through date. Subsidized and unsubsidized Stafford loans under this section are considered the same loan type.

Preclaim Request Instructions

If a lender submits a request for preclaim assistance with any required information that is missing, incomplete, or inaccurate, the guarantor may attempt to obtain the necessary information from its own system or request the information from the lender. However, the lender must, provide the requested information or resubmit any rejected preclaim request within the time frame established by the guarantor (see "Preclaim Assistance Time Frames" in subsection 8.1.J.). If a lender is unable to provide the requested information within the guarantor's established time frames, the loan may be subject to an interest penalty should a claim later be filed and paid.

The following chart will help lenders determine what information must be provided on the preclaim request. Detailed descriptions of these items are located in the instructions on the Preclaim Request Form.

▲ Lenders may contact individual guarantors for more information on required data elements associated with the form. See section 1.5 for contact information.

CCI 8.12 Claim Form

The Claim Form (see appendix F) is designed to be used by a lender to request claim reimbursement. All loans included on the Claim Form must have the same loan type (i.e. Stafford, PLUS, SLS, or Consolidation), due date, and interest-paid-through date.

▲ Some guarantors may require a separate claim for subsidized and unsubsidized loans and/or for loans with different interest rates. Lenders may contact individual guarantors for more information. See section 1.5 for contact information.

Claim Form Instructions

If a lender submits a claim with any required documentation that is missing, incomplete, or inaccurate, the guarantor may attempt to obtain the necessary information from its own system or request the information from the lender. The lender must provide the requested information and resubmit the claim by the refiling deadline (refer to subsection 8.4.A.).

The following chart will help lenders determine what information must be provided on the Claim Form. Detailed descriptions of these items are located in the instructions on the Claim Form.

▲ Lenders may contact individual guarantors for more information on required data elements associated with the Claim Form. See section 1.5 for contact information.

CCI 8.13 Supplemental Claim Form

The Supplemental Claim Form (see appendix F) is designed to be used by a lender to request a claim payment increase within 90 days of receiving the claim payment. The guarantor will not pay a supplemental claim for a total amount of less than $50.

Supplemental Claim Form Instructions

The following chart will help lenders determine what information must be provided on the Supplemental Claim Form. Detailed descriptions of these items are located in the instructions on the Supplemental Claim Form.

▲ Lenders may contact individual guarantors for more information on required data elements associated with the Supplemental Claim Form. See section 1.5 for contact information.

INFORMATION TO BE PROVIDED FOR PRECLAIM REQUEST

Item Description	Required[1]	If Available[2]
Type of preclaim assistance requested (i.e., SK = skip assistance request, DF = preclaim request for a borrower delinquent on monthly payments, DQ = preclaim request for a borrower delinquent on payments due less frequently than monthly).	•	
Date the preclaim request was generated.	•	
Borrower's social security number (SSN).	•	
Borrower's last name, first name, and middle initial.	•	
AKA (previous or alternative name used by the borrower).		•
Borrower's last known address.	•	
Validity of the borrower's address.		•
Address effective date.		•
Borrower's home telephone number, work number, other number, and validity of the telephone numbers.		•
Name, telephone number, and address of the borrower's place of employment.		•
Name of the last-known eligible school attended by the borrower or attended by the student for a PLUS loan.	•	
Stafford loans—the date the student is last enrolled at least half time, before any grace period and the initial conversion of the loan to repayment. PLUS/SLS loans—the date the student borrower ceased eligibility for an in-school deferment (for immediately deferred loans only). Consolidation loans and PLUS/SLS loans not immediately deferred—the latest disbursement date. For Consolidation loans, the latest disbursement date on the beginning loan balance should be used if the lender did not establish a new due date when an add-on was accomplished. If the lender did establish a new due date with the add-on loan, the disbursement date for the add-on should be provided.		•
Six or eight-digit code assigned by the Department of the last-known eligible school attended by the borrower.		•
Address and last name, first name, and middle initial of two references.	•[3]	
Validity of the references' address(es).		•
Relationship of each reference to the borrower (i.e., E = employer, F = friend, G = guardian, O = other, P = parent, R = relative, S = sibling, M = spouse, or N = not available).		•
Home telephone numbers, work numbers, other numbers, and validity of the telephone numbers for each reference.		•
Loan type for each loan identified on the preclaim request (i.e., SF= subsidized Stafford, including non subsidized prior to 10/92; SU = unsubsidized Stafford; PL= PLUS; SL = SLS; CL = Consolidation).	•	
Loan ID for each loan identified on the preclaim request (e.g., the loan identifier code, file number, guaranty date, or amount, as indicated by the guarantor).	•	
First disbursement date for each loan identified on the preclaim request, as specified in the lender's records.	•	
Current principal balance (including all reinsured and unreinsured capitalized interest) due on the date of the preclaim request for each loan identified on the preclaim request.	•	
Accrued interest due on the date of the preclaim request for each loan identified on the preclaim request.	•	
Date the loan sold (as applicable).	•	
Date on which the current servicer assumed responsibility for servicing the loan for each loan identified on the preclaim request (as applicable).	•	
Payment due date of the borrower's first unmet payment.	•	
Payment amount of the borrower's currently scheduled installment.	•	
Amount of the most recent payment received and the date received.		•
Total amount delinquent on the date the preclaim request was generated.	•	
Number of days delinquent on the date the preclaim request was generated.	•	
Total number of deferment and/or discretionary forbearance months granted to the borrower for each specific deferment or discretionary forbearance identified on the preclaim request.		•
Full name of the endorser, comaker, or PLUS student and identifying code (i.e., "E" if the individual is an endorser; "C" if the individual listed is a comaker; "S" if the individual listed is a PLUS student)	•[3]	
Endorser's, comaker's, or PLUS student's social security number.	•[3]	
Endorser's or comaker's last-known complete address and validity of the address.	•[3]	
Endorser's or comaker's home telephone number and validity of the number.	•[3]	
PLUS student's last-known complete address and validity of the address.		•
PLUS student's home telephone number and validity of the number.		•
Lender or servicer name and address. If the account is being serviced, only the servicer name and address must be provided.	•	
Lender's six-digit lender ID assigned by the Department and, as applicable, four-digit non-Department suffix.	•	
Servicer's six-digit servicer ID assigned by the Department.	•[3]	
Contact and telephone number to whom the borrower should be referred (e.g., Customer Servicer Department, Collection Department).	•	
Telephone number and name of the person or unit responsible for answering questions about information provided on the form.	•	

1 Refers to information the lender must provide on the preclaim request.

2 Refers to information the lender may or may not have. If the lender has the information it must be provided on the preclaim request.

3 Refers to information the lender is required to provide on the preclaim request with loans first disbursed on or after September 1, 1998. For disbursements prior to September 1, 1998, if the lender has the information, it must be provided on the preclaim request.

INFORMATION TO BE PROVIDED FOR CLAIM FORM

Item Description	Required[1]	If Available[2]
Type of claim being submitted.	•	
Date condition occurred.	•	
Borrower's social security number (SSN).	•	
Borrower's last name, first name, and middle initial.	•	
AKA (previous or alternate name used by the borrower).		•
Borrower's last known address.	•	
Validity of the borrower's address.		•
Borrower's home telephone number, work number, other number, and validity of the telephone numbers.		•
Name, telephone number, and address of the borrower's place of employment.		•
Loan type for each loan identified on the Claim Form (i.e., SF= subsidized Stafford, including nonsubsidized prior to 10/92; SU = unsubsidized Stafford; PL= PLUS; SL = SLS; CL = Consolidation).	•	
Loan ID for each loan identified on the Claim Form (e.g., the loan identifier code, file number, guarantee date, or amount, as indicated by the guarantor).	•	
Date the loan sold (as applicable).	•	
Date on which the current servicer assumed responsibility for servicing the loan for each loan identified on the Claim Form (as applicable).	•	
First disbursement date for each loan identified on the claim request.	•	
Interest rate, interest rate type, and the date loan converted (as required by HEA 1986 or HEA 1992 rebate requirements) for each loan identified.	•	
Current principal balance (including all reinsured and unreinsured capitalized interest) due for each loan identified on the date of the claim request.		•
Amount of cure interest capitalized and unpaid cure interest not capitalized for each loan claimed.	•	
PLUS student's social security number (SSN), and name.	•	
Full name of the endorser, comaker, and the identifying code (i.e., E=endorser, C=comaker).	•	
Endorser, comaker social security number (SSN).	•[3]	
Endorser, comaker last known complete address and the validity of the address.	•[3]	
Endorser, comaker home telephone number and the validity of the number.	•[3]	
Original out-of school date (i.e., The date the Stafford loan borrower ended enrollment on at least a half-time basis, or the Consolidation, PLUS, SLS student borrower's latest disbursement date, or the date the PLUS, SLS student borrower ceased eligibility for an in-school deferment).	•	
Date the lender was notified of the original out-of-school date.	•	
Note whether the original out-of-school date changed after the account entered repayment.	•	
Due date of the first monthly installment.	•	
Total amount of principal and interest payments made by or on behalf of the borrower.	•	
Number of months due date advanced by payments made by or on behalf of the borrower.	•	
Number of regular monthly installments deferred or forborne.	•	
Number of months account was out of guarantee.	•	
Total number of noncontinuous individual periods of deferment and forbearance.	•	
Number of reconversion months.	•	
Due date of the first unmet installment of the borrower's delinquency.	•	
Date through which interest was last paid.	•	
Total original principal value disbursed to the borrower for the loans claimed.	•	
Total amount of interest capitalized.	•	
Total principal repaid on the borrower's account before and after entering repayment.	•	
Total principal value of the borrower's debt which is used to compute the interest claimed.	•	
Amount of interest capitalized not eligible for claim payment.	•	
Total principal value of the claim.	•	
Amount of unpaid cure interest not capitalized.	•	
Amount of outstanding reinsured interest claimed and the date through which it was accrued.	•	
Amount of any other reinsured costs incurred on the account.	•	
Lender's six-digit lender ID assigned by the Department and, as applicable, four digit non-Department suffix.	•	
Servicer's six-digit servicer ID assigned by the Department.	•[3]	
Claim review status for which the institution currently qualifies (i.e., 1=Exceptional performer status, 2=standard review status, 3=Program review status).		•
Current servicer's name and address.	•	
Preparer's name and telephone number.	•	
Borrower, endorser, and comaker collection activity codes and dates the activities were performed.	•	

1 Refers to information the lender must provide on the Claim Form.

2 Refers to information that the lender may or may not have. If the lender has the information, it must be provided on the Claim Form.

3 Refers to information that the lender is required to provide on the Claim Form with loans first disbursed on or after September 1, 1998. For disbursements prior to September 1, 1998, if the lender has the information, it must be provided on the Claim Form.

INFORMATION TO BE PROVIDED ON THE SUPPLEMENTAL CLAIM FORM

Item Description	Required[1]	If Available[2]
Borrower's name.	•	
Borrower's social security number (SSN).	•	
Lender's six-digit lender ID assigned by the Department and, as applicable, four digit non-department suffix.	•	
Loan type.		
Servicer's six-digit servicer ID assigned by the Department.	•[3]	
Interest rate.	•	
Loan identification.	•	
Amount of principal paid.		•
Amount of interest paid.		•
Number of days of interest paid.		•
Claim payment receipt date.	•	
Interest paid through date at claim submission.	•	
Amount of principal increase requested.	•	
Amount of interest increase requested.	•	
Total increase requested.	•	
Reason for increase request.	•	
Name of lender representative.	•	
Date form completed.	•	
Lender name.	•	
Signature of lender representative.	•	
Servicer name.	•	

1 Refers to information the lender must provide on the Supplemental Claim Form.

2 Refers to information that the lender may or may not have. If the lender has the information, it must be provided on the Supplemental Claim Form.

3 Refers to information that the lender is required to provide on the Supplemental Claim Form with loans first disbursed on or after September 1, 1998. For disbursements prior to September 1, 1998, if the lender has the information, it must be provided on the Supplemental Claim Form.

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9 Federal Consolidation Loans

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Chapter 9 highlights policies and procedures specific to Federal Consolidation loans. A borrower may obtain a Consolidation loan to merge several types of federal student loans with varying repayment terms into a single loan. Consolidation loans are also available to married couples, provided each person is eligible.

9.1
Lender Participation

To participate in the Federal Consolidation Loan Program, a lender must meet the following requirements:

- The lender must be an eligible lender under the FFELP (secondary markets may also be considered eligible lenders).
- The lender must sign an agreement to guarantee Federal Consolidation loans with a guarantor (this agreement may be a separate agreement or included as part of other agreements between the lender and the guarantor).
- The lender must maintain a certificate of comprehensive insurance coverage with the guarantor providing such coverage.
[HEA 428C(b)]

▲ Lenders may contact individual guarantors for information on whether Consolidation loan agreements are separate from other lender agreements. See section 1.5 for contact information.

9.1.A.
Agreement to Guarantee Federal Consolidation Loans

The agreement to guarantee Federal Consolidation loans defines the terms and conditions under which the lender may make guaranteed Consolidation loans. This agreement is similar to the agreement that the lender must sign to participate in other loan programs with a guarantor (see subsection 3.3.A.).

The lender must meet specific requirements in the agreement for Consolidation loan guarantees to remain in effect. By signing the agreement, the lender agrees to meet the following requirements:

- To exercise reasonable care and diligence in the making, servicing, and collecting of Consolidation loans.
- To comply with all applicable federal and state laws and regulations—as well as procedures required in federal regulations, this manual, guarantor bulletins, and Consolidation loan forms, applications, and agreements.
- To use an approved Consolidation loan application and promissory note.
- To secure information on the outstanding balance of each eligible loan to be consolidated before including it in the Consolidation loan.
- To pay the full proceeds of each outstanding loan to the appropriate holder(s).
- To pay a 0.5% origination fee to the Department on each Consolidation loan made. This fee may not be charged to the borrower.
[HEA 438(d)]
- To promptly provide reports on other information that may be requested by the guarantor.
- To pay the Department a monthly rebate fee on Consolidation loans made on or after October 1, 1993, and held by the lender at month end (see section 9.7).
[HEA 428C(f)]
- To make Consolidation loans without discriminating against an applicant. See below for information concerning nondiscrimination provisions.
[HEA 428C(b)(6); DCL GEN-98-7/98-L-201/98-G-307]

Lenders must diligently service Consolidation loans in accordance with provisions applicable to other FFELP loans (see chapters 7 and 8). Any failure to fulfill those requirements may result in a loss of the guarantee on the loan and a loss of eligibility for any interest subsidy payments that might otherwise apply (see section 9.6).

Nondiscrimination Provisions and Permissible Practices

Lenders must make Consolidation loans without discriminating against an applicant. For example, a lender must not discriminate against an applicant based on the number or type of eligible student loans the borrower wishes to consolidate, the type or category of school the borrower attended, the interest rate that will be charged to the borrower on the Consolidation loan, or the types of repayment schedules offered to the borrower. However, a lender may decline to consolidate Health Professions Student Loans (HPSL), including Loans for Disadvantaged Students (LDS), Nursing Student Loans (NSL), and Health Education Assistance Loans (HEAL).
[HEA 428C(b)(6)]

Although a lender is prohibited from establishing policies that result in discrimination against borrowers who wish to consolidate loans, the Department considers certain lender policies and practices *not* to be discriminatory. For example, a lender may do any of the following:

- Require the Consolidation loan applicant to have at least one loan currently held by the lender.
- Counsel borrowers on the consequences of consolidating certain types of loans (e.g., Perkins loans).
- Refuse to consolidate defaulted loans. Lenders are authorized to consolidate defaulted loans if the borrower has made satisfactory arrangements with the loan holder to repay the defaulted loan, or if the borrower agrees to repay the loan under an income-sensitive repayment schedule.
- Refuse to make a single Consolidation loan to a married couple. However, a lender must ensure that it does not deny a loan based solely on marital status. For example, a lender, in establishing its policies, might choose not to make a single Consolidation loan to a married couple but would permit each eligible spouse to consolidate his or her loans separately.
- Refuse to make Consolidation loans below a predetermined minimum amount, provided the policy does not have the effect of discriminating against borrowers based on a prohibited reason.
- Require credit checks of Consolidation loan applicants.
- Decline to make a Consolidation loan if the lender was unable to obtain a guarantee.
[DCL GEN-98-7/98-L-201/98-G-307]

9.1.B.
Certificate of Comprehensive Insurance Coverage

A certificate of comprehensive insurance coverage will be finalized upon execution of an agreement to guarantee Federal Consolidation loans. The certificate functions as a “blanket guarantee” and includes the lender’s insurance capacity. This capacity is the total dollar amount that the guarantor will insure for all Federal Consolidation loans made by the lender during the time the certificate is in effect.

The guarantor will alert the lender when the insurance capacity indicated on the certificate of comprehensive insurance coverage has been used. If a lender approaches its insurance capacity, the guarantor will review the lender’s insurance capacity to determine if additional capacity is appropriate. If an increase in capacity is appropriate, the guarantor will send a letter of understanding to the lender to extend coverage.

Because lenders make Consolidation loans under a “blanket guarantee,” guarantors do not issue guarantee disclosures for individual Federal Consolidation loans. Generally, the guarantor will provide a confirmation report to lenders that make Consolidation loans.

▲ Lenders may contact individual guarantors for information on whether confirmation reports are provided. See section 1.5 for contact information.

9.1.C.
Notifying the Guarantor

The lender is required to notify the guarantor of each Federal Consolidation loan it makes. The lender must report the making of a Consolidation loan in a format acceptable to the guarantor. When the guarantor receives the notification, it will record the loans under the lender's insurance capacity.

The lender must report to the guarantor that a Consolidation loan has been made within 60 days of the date on which the loan is initially disbursed. If a lender adds a loan within the 180-day add-on period or makes any other adjustment to the outstanding original balance of a Consolidation loan, the lender must report the new Consolidation loan information to the guarantor within 60 days of the date on which the additional loan funds are disbursed or the adjustment is made. If there is a data discrepancy, the lender will be granted an additional 60 days from the date the guarantor rejects the application (plus five days mail time) to provide additional or corrected information.

The guarantor reserves the right to take appropriate corrective action, including the imposition of interest penalties, if the lender fails to report the making of a Consolidation loan, fails to report the disbursement of additional funds, or fails to report any other adjustment of the outstanding original balance within 60 days after that activity occurs. Repeated or intentional noncompliance (including failure to reconcile) may result in the withdrawal of the loan guarantee.

▲ Lenders may contact individual guarantors to verify the acceptability of notification formats. See section 1.5 for contact information.

9.2
Borrower Eligibility and Underlying Loan Holder Requirements

To qualify for a Federal Consolidation loan, a borrower must meet the following eligibility criteria at the time he or she applies for the Consolidation loan:

- A borrower must no longer be enrolled on at least a half-time basis at a school.

- A borrower must be in the grace period or have entered repayment on each loan chosen for consolidation.

- A borrower must not be subject to a judgment secured through litigation or an order of administrative wage garnishment on a Title IV loan. If the judgment has been released or the wage garnishment order has been rescinded, the borrower may be eligible to consolidate the loans (see bullet below on including defaulted Title IV loans in a Consolidation loan).
[HEA 428C(a)(3)]

- A borrower must certify that he or she does not have another Federal Consolidation loan application pending.

- If any Title IV loans being considered for consolidation are in default, the borrower must either make satisfactory repayment arrangements with the holder of each defaulted loan or agree to repay the consolidating lender under an income-sensitive repayment schedule. Satisfactory repayment arrangements for consolidation purposes are defined later in this section. The income-sensitive repayment schedule is described in section 7.6.

- A borrower who has loan amounts that are ineligible due solely to the borrower's error must repay the ineligible amount in full prior to the consolidation of the borrower's loans (see subsection 7.12.A.).

- A borrower must agree to notify the holder of address changes.

- A borrower or married couple with FFELP loans held by multiple lenders may request consolidation from any participating consolidation lender, regardless of whether the consolidating lender is a holder of any of the borrowers' loans.

- A borrower whose FFELP loans are held by a single lender that is not the consolidating lender must certify one of the following:

  - That he or she has attempted to obtain a Federal Consolidation loan through the holder of the loans selected for consolidation, but has been unable to do so.

  - That the holder of the loans to be consolidated does not offer an income-sensitive repayment schedule.
    [§682.102(d)]

  The borrower's certification must be in writing and must be signed by the borrower. In the case of a married couple seeking a joint Consolidation loan in which all of the loans to be consolidated are held by a single lender, only one of the borrowers must contact the lender and only one of the applicants is required to make this certification.
  [HEA 428C(b); §682.102; §682.201(c)(1)(vi)]

- A guarantor will guarantee a Consolidation loan only if the borrower (or borrowers in the case of spouses applying to consolidate their loans) has one or more active loans currently held or guaranteed by that guarantor, except as otherwise agreed on a case-by-case basis by the lender and guarantor. The borrower may choose not to include the active loan that was issued under that guarantee in the Consolidation loan.

- A borrower who currently has a Federal Consolidation loan is eligible for another Federal Consolidation loan if the borrower has obtained a new eligible loan after the date the original Consolidation loan was made. Any or all outstanding eligible loans may be consolidated, including loans made prior to any previous Consolidation loan.

For purposes of this policy, an active loan is any loan that has not been paid in full, canceled, discharged (e.g., due to death, disability, closed school, false certification), or subrogated by the Department. However, a subrogated loan may be included in a Consolidation loan if the borrower has another active loan guaranteed or held by the consolidating guarantor that has not been subrogated. A defaulted loan that is still held by the consolidating guarantor is an active loan.

If a Consolidation loan is guaranteed and the guarantor later determines that it was not the guarantor or holder of at least one of the borrower's (or borrowers', in the case of spouses applying to consolidate their loans) active loans, the guarantor reserves the right to notify the lender that the guarantee on the Consolidation loan is not valid. The lender may attempt to transfer the loan to an appropriate guarantor or the guarantee may be revoked. If the guarantee is revoked, all interest and special allowance collected on that loan from the date of disbursement must be refunded.

Married couples may consolidate their eligible loans jointly if each borrower is eligible and agrees to be jointly and severally liable for the repayment of the loan, regardless of any change in marital status.

Some guarantors have additional eligibility requirements and restrictions on Consolidation loans. These requirements and restrictions are noted in appendix C.

Loans That May Be Consolidated

A borrower may consolidate one or more of the following types of federal education loans:

- FFELP loans (Stafford, PLUS, SLS, and Consolidation loans[1])

- FDLP loans (Stafford, PLUS, and Consolidation loans[1])

- FISL loans

- Perkins Loans

- Health Professions Student Loans (HPSL), including Loans for Disadvantaged Students (LDS)[2]

- Nursing Student Loans (NSL)[2]

- Health Education Assistance Loans (HEAL)[2]

[1] A Consolidation loan may be consolidated only if the borrower, or either spouse in a couple that jointly consolidated loans, obtained a new eligible loan after the date the original Consolidation loan was made.
[2] See subsection 9.1.A. for information on nondiscrimination and permissible practices.

If a borrower with a Federal Consolidation loan chooses to consolidate again and meets the eligibility requirements, the borrower can include any combination of the following in the new Consolidation loan: (1) any loans made prior to the original Consolidation loan and not included in that consolidation, (2) the original Consolidation loan, and (3) any new loans obtained after the original Consolidation loan. However, the borrower is not required to include the new loans made after the original Consolidation loan—even though it was those loans that qualified him or her for the subsequent consolidation.
[HEA 428C(a)(3) and (a)(4); §682.206(e)(3)]

Consolidating Defaulted Loans

A defaulted loan is eligible for consolidation if the borrower, at the time of application for the Consolidation loan, meets one of the following conditions:

- Has made satisfactory repayment arrangements with the holder of the defaulted loan.
- Has agreed to repay the Consolidation loan under an income-sensitive repayment schedule.

Some guarantors restrict the methods by which a borrower may become eligible to consolidate a defaulted loan. These requirements are noted in appendix C.

It is the obligation of the consolidating lender to determine whether the borrower has chosen an income-sensitive repayment schedule or has made the required monthly payments to the holder of the defaulted loan.

Satisfactory repayment arrangements for Consolidation loan eligibility purposes are defined as three consecutive, on-time (received within 15 days of the due date), voluntary, full monthly payments. These payments must be reasonable and affordable with respect to the borrower's financial situation and must be received by the holder of the defaulted loan during the three months immediately preceding the receipt of a consolidating lender's verification certificate. Prepayment of future installments will not be counted in determining whether the borrower has made three consecutive payments. Income-sensitive repayment schedule eligibility and terms are outlined in subsection 7.6.D.
[§682.200(b); §682.201(c)(1)(iii)(C); §682.209(a)(6)(viii)]

Adding Loans After Consolidation

A borrower may add to any outstanding Consolidation loan any eligible loans received before or after the date of the consolidation, provided the borrower, or either spouse in a couple that jointly consolidated loans, makes a request within 180 days of the date the Consolidation loan is made. After the 180-day period, the borrower may not include additional loans in the outstanding Consolidation loan.

A borrower who wants to add loans to a Consolidation loan that has been disbursed should provide information regarding those loans to the lender. If the borrower requests that a loan be added within the 180-day add-on period, the consolidating lender is permitted an additional 30 days beyond the 180-day period to complete the disbursement of the additional loan funds.
[§682.209(h)(4)(iii)]

Lenders should note that the interest rate and repayment terms on a Consolidation loan may be affected by adding loans. However, a Consolidation loan made from an application received by the lender between November 13, 1997, and September 30, 1998, inclusive, retains a variable interest rate, not to exceed 8.25%, regardless of any new loans added after the original Consolidation loan is made. For portions of the Consolidation loan attributable to HEAL loans, the variable interest rate is based on the average of the 91-day Treasury bill rate plus 3%, with no cap.
[HEA 428C(c)(1)(D)]

Some guarantors require lenders to report the adding of loans to Consolidation loans within specific time frames. These requirements are noted in appendix C.

9.3
The Application Process

Neither the guarantor nor the lender may charge the borrower a guarantee fee or origination fee with the borrower's application for a Federal Consolidation loan. Federal regulations permit guarantors to charge lenders an administrative fee to cover the costs of increased or extended liability for Consolidation loans. This fee may not exceed $50 and may not be passed on to the borrower. [§682.505(a); §682.401(b)(12)]

▲ Lenders may contact individual guarantors for further information on applicable fees. See section 1.5 for contact information.

9.3.A.
Providing Consolidation Loan Information

The lender is encouraged to provide information to prospective Consolidation loan borrowers to help them make informed decisions about consolidation. Lenders may wish to provide the following types of documentation:

Checklist
Including a checklist can be helpful in guiding the borrower through the Consolidation loan application process.

Fact Sheet
A Consolidation loan fact sheet can clearly explain:
- Benefits of consolidation to the borrower.
- Borrower eligibility requirements.
- Types of loans that may be consolidated.
- Interest rate calculation.
- Repayment options available.
- Effects of repayment schedule on the repayment period.
- Deferment options.
- The borrower's cost for consolidation.
- The consolidation process.

Worksheet
A Federal Consolidation loan worksheet can help the borrower:
- List all outstanding education loans.
- Select which loans are to be consolidated.
- Determine the maximum repayment period.
- Compute the interest rate.
- Calculate estimated monthly payments under standard, graduated, or income-sensitive repayment schedules.
- Compare the estimated payment with the total of payments for the same loans without consolidation.
- Calculate the total cost of repayment (including interest) over various repayment periods.

Instructions
The lender should include instructions for filling out the application and promissory note.

9.3.B.
Completing the Application

The borrower must complete a Consolidation loan application and promissory note to apply for the consolidation of his or her eligible loans. The application must be submitted to the consolidating lender. If a married couple is seeking to consolidate loans jointly, a spousal application also must be completed.

9.3.C.
Completing the Verification Certificate

A verification certificate must be completed by the holder of each loan to be consolidated. The consolidating lender may use information from the certificate to build an accurate record of the borrower's current education loan obligations and to determine the payoff amount of the loan(s). If the current holder is also the holder that is performing the consolidation, that party is not required to complete a verification certificate. However, the holder must retain adequate evidence to support the loan balance as of the date of the consolidation. This information may be requested in a borrower inquiry or a program review.

A verification certificate may be included with application materials or may be generated by the consolidating lender. The certificate must be completed and must include—or be accompanied by—the borrower's written authorization.

The current holder of each loan to be consolidated must complete the certificate according to the instructions on the form. If the current holder has information indicating that a borrower may not be eligible for the Consolidation loan, this information should be included on the verification certificate.
[§682.209(j)]

In completing a verification certificate, the holder should:

- Verify the information provided by the borrower for each loan.

- Calculate a loan payoff amount according to the *anticipated loan payoff date*.

The payoff amount should include outstanding accrued interest, late charges, and the outstanding principal balance for each loan. The payoff amount for defaulted loans may also include collection costs. However, collection costs exceeding 18.5% of the outstanding balance at the time of certification will not be guaranteed.

Prior to the disbursement of a Consolidation loan, the consolidating lender must obtain certification (from the holder of each loan to be consolidated) of the following:

- The loan is a legal, valid, and binding obligation of the borrower.

- The loan has been disbursed and serviced in accordance with the rules and regulations governing the applicable loan program.

- The guarantee on the loan is in full force and effect.

- The loan is in a grace, repayment, or default status. If the loan is in default, the holder must certify whether the borrower has made satisfactory repayment arrangements (see section 9.2).

When the verification certificate is complete, an authorized official of the holder must sign the certificate and return it to the consolidating lender. If the holder is unable to certify to the matters described above, the holder must provide the consolidating lender and the guarantor of the loan at issue with a written explanation of the reasons for its inability to provide the certification. The holder has 10 business days from the date it receives the verification certificate to respond to the consolidating lender.
[§682.206(f); §682.209(j)]

9.3.D. Calculating the Interest Rate

Interest rates applicable to Consolidation loans are listed in the table on the following page.

Calculating the Weighted-Average Interest Rate

With the exception of any outstanding balance representing a HEAL loan, the outstanding balance of all eligible loans to be consolidated are included in the weighted-average interest rate calculation. A weighted-average interest rate is calculated as follows:

The following exemplifies a weighted-average interest rate calculation for a loan application received by the lender on or after October 1, 1998:

Step 1
Multiply the outstanding balance of each loan to be consolidated by that loan's current interest rate. A variable rate loan should be included in the calculation at the rate at which it is currently accruing.

Example: Outstanding loan balances are $3,500, $3,200, and $5,500 respectively—for a total of $12,200. The current interest rates for the loans are 7%, 5%, and 9%, respectively.

$3,500 X .07 = $245
$3,200 X .05 = $160
$5,500 X .09 = $495

Step 2
Add the results of all calculations made under *Step 1*. Then divide this sum by the outstanding balance of all loans being consolidated.

Example: $245 + $160 + $495 = $900
$900 ÷ $12,200 = .07377 or 7.377%

Step 3
Round the result of *Step 2* up to the nearest eighth of one percent, not to exceed 8.25%.

Example: 7.377% is rounded up to 7.5%

A lender may charge the borrower a rate that is less than the statutory maximum. If a lower rate is charged, the lender must ensure that reports issued to the Department (such as the ED Form 799) are adjusted. See appendix A for more information on ED Form 799 reporting.

A lender must notify the borrower, at the time a lower interest rate is offered, that the lower-rate interest ends on the date a default or ineligible borrower claim is purchased by the guarantor. The lender may provide this information in any format. Documentation of the notice must be maintained in the borrower's file. A lender is encouraged to include this documentation (showing that the borrower was informed that the lower interest rate expires upon claim purchase) with default and ineligible borrower claim files. The lender will be required to provide this documentation if a borrower challenges the guarantor or the Department for charging the applicable statutory maximum interest rate during postclaim interest accrual. If the issue goes to court and the decision is in favor of the borrower such that the loan is unenforceable at the statutory maximum interest rate, the lender will be required to repurchase the loan and the guarantee will be withdrawn permanently. The lender may be required to reimburse the guarantor for any court costs or court-imposed fines or penalties.

CONSOLIDATION LOAN INTEREST RATES

Loan Characteristic	Interest Rate			
Applications received by the lender on or after 10/1/98	Portion attributable to FFELP, FDLP, FISL, Perkins, HPSL, or NSL loans		Portion attributable to HEAL loans (if applicable)	
	Fixed	Weighted average of the interest rates on the non-HEAL loans being consolidated, rounded up to the nearest one-eighth of one percent, not to exceed 8.25% [HEA 427A(k)(4)]	Variable[1]	Average of the bond equivalent rates of the 91-day Treasury bills auctioned for the quarter ending June 30, plus 3.0%. [HEA 428C(d)(2)(A) and (B)]
Applications received by the lender between 11/13/97 and 9/30/98, inclusive	Portion attributable to FFELP, FDLP, FISL, Perkins, HPSL, or NSL loans		Portion attributable to HEAL loans (if applicable)	
	Variable[1,2]	Bond equivalent rate of the 91-day Treasury bills auctioned at the final auction before the preceding June 1, plus 3.1%, not to exceed 8.25% [HEA 427A(k)(4)]	Variable[1]	Average of the bond equivalent rates of the 91-day Treasury bills auctioned for the quarter ending June 30, plus 3.0%. [HEA 428C(c)(2)(A) and (B)]
Loans made on or after 7/1/94, from applications received by the lender before 11/13/97	Fixed	Weighted average of the interest rates on the loans being consolidated, rounded up to the nearest whole percent. [HEA 428C(c)(1)(C)]		
Loans made before 7/1/94	Fixed	Greater of 9% or weighted average of the interest rates on the loans being consolidated, rounded to the nearest whole percent. [HEA 428C(c)(1)(B); §682.202(a)(4)]		

[1]All variable interest rates are adjusted annually on July 1.
[2]Lenders that initially calculated the interest rate using the weighted average were required, no later than April 1, 1998, to recalculate the loans at the variable rate retroactively to the date the loans were disbursed and apply any credits to the borrower's account.

9.4
Disbursement

The lender may disburse a Consolidation loan upon receiving the borrower's signed application and promissory note and completed verification certificates from the holder(s) of all loans to be consolidated. In disbursing the loan, the consolidating lender must pay to each holder of a loan that is being consolidated the outstanding principal balance plus any accrued unpaid interest, late charges (as certified on the verification certificate), and collection costs, as applicable.

A Consolidation loan is considered to be disbursed on the date of the first individual or master check, payment advice, or noncash transfer that transfers funds from the consolidating lender to the holder of the loans to be consolidated. For funds disbursed by EFT, the Consolidation loan is considered disbursed on the first date that funds are transferred. If the loan funds for multiple underlying loans are disbursed on multiple days, including funds issued through the end of the 180-day add-on period, those disbursements are considered "subsequent disbursements." The loan's first disbursement date is used to determine its terms and conditions.

Upon receiving sufficient proceeds from the consolidating lender, the holder of each loan being consolidated must promptly apply the payment to discharge the borrower's obligation in full. If proceeds disbursed by the consolidating lender are not sufficient to pay a loan in full, the holder should contact the consolidating lender to resolve the discrepancy.

The holder of a loan that is paid in full by a Consolidation loan must promptly make the following notifications:

- Notify the consolidating lender that the consolidating funds were received and provide certification that the underlying loan has been fully discharged.
- Report the payment in full to at least one appropriate national credit bureau.
- Report to the loan's guarantor that the loan has been paid in full by consolidation.
  [§682.209(h)(6)]

Some guarantors have additional requirements regarding the disbursement of Consolidation loans. These requirements are noted in appendix C.

9.5
Repayment

A Federal Consolidation loan enters repayment on the date the loan is disbursed. The lender must establish a first payment due date that is no more than 60 days after the date the Consolidation loan is fully disbursed.
[§682.209(h)(1); §682.209(a)(1)]

When establishing the repayment terms for a Consolidation loan, the lender must consider the borrower's financial ability to repay the loan and ensure that the terms meet the requirements described in this section.

For a Consolidation loan made from an application and promissory note received on or after January 1, 1993, the lender must offer the borrower the choice of repaying the loan under a standard, graduated, or income-sensitive repayment schedule. See subsections 7.6.C. and 7.6.D. for more information on these repayment schedules and minimum payment requirements.

9.5.A.
Disclosing Repayment Terms

The lender must disclose repayment terms for a Federal Consolidation loan to the borrower at the time the loan is disbursed. Lenders should refer to subsection 7.5.D. for more information on repayment disclosure requirements.

A lender may capitalize the sum of collection costs assessed by any previous holders if the borrower has agreed in writing to have those costs capitalized in the Consolidation loan. A borrower applying to consolidate any defaulted loans must agree to the capitalization of collection costs to qualify for a Consolidation loan.

9.5.B.
Maximum Repayment Period

The length of the repayment period for a Federal Consolidation loan varies according to the sum of the beginning balance of the Consolidation loan and the amount of the borrower's other education loans. Other education loans are those made by an organization under a public or private student loan program exclusively for the purpose of financing the borrower's postsecondary education. For the purposes of determining the borrower's repayment terms, the sum of other education loans may not exceed the amount of the Consolidation loan and may not include non-Title IV education loans that are in default. The sum of other education loans may include any defaulted Title IV loans for which satisfactory repayment arrangements have been made (see section 9.2).

The lender is not required to verify the balance of any other education loans that are used to determine the length of the repayment period for a Federal Consolidation loan.

The maximum repayment periods for Consolidation loans—based on the sum of the initial Consolidation loan balance and other education loan balances—are outlined in table below.

9.5.C.
Deferments

A Federal Consolidation loan borrower's deferment eligibility is based on the following factors:

- The date on which the Consolidation loan application and promissory note was received by the lender.
- Whether the borrower included all his or her outstanding FFELP loans in the Consolidation loan.
- The deferment eligibility established with the borrower's underlying loans.
- The extent to which the borrower has already obtained deferments (and depleted deferment eligibility). Generally, deferments are borrower specific. When determining a borrower's eligibility for deferment, the holder should consider any information available on the borrower's previous deferments.

If two individuals are jointly liable for repayment, both individuals must simultaneously meet the requirements for receiving the same or different deferments.

A Consolidation loan borrower may defer payment of principal during certain periods. Deferment options available to the borrower depend on two factors: when the borrower's Consolidation loan was made and whether the borrower had any outstanding principal or interest balance on a FFELP loan on July 1, 1993. Details on all of the following deferment types, including restrictions and documentation requirements, are outlined in sections 7.9 and 7.10.

MAXIMUM REPAYMENT PERIODS FOR CONSOLIDATION LOANS

Sum of Consolidation Loan Balance plus Balances of Other Education Loans	Maximum Repayment Period*
Less than $7,500	10 years
$7,500 or more, but less than $10,000	12 years
$10,000 or more, but less than $20,000	15 years
$20,000 or more, but less than $40,000	20 years
$40,000 or more, but less than $60,000	25 years
$60,000 or more	30 years

*Maximum repayment periods exclude authorized periods of deferment and forbearance. [§682.209(h)(2); §682.209(h)(3)]

New Borrowers on or after July 1, 1993

If a Consolidation loan is made on or after July 1, 1993, and the borrower has no outstanding FFELP loans at the time of consolidation that were made on or before July 1, 1993, the borrower may be entitled to the following types of deferments:

- *Education-Related Deferments*

  When the borrower is enrolled at least half time at an eligible school (see subsection 7.10.A.), pursuing a graduate fellowship program (see subsection 7.10.C.), or engaged in a rehabilitation training program (see subsection 7.10.D.).

- *Unemployment Deferments*

  When the borrower is conscientiously seeking, but unable to secure, employment (see subsection 7.10.E.).

- *Economic Hardship Deferments*

  When the borrower is experiencing economic hardship (see subsection 7.10.P.).

Borrowers with Loans Made before July 1, 1993

If a Consolidation loan is made before July 1, 1993, the borrower may be entitled to the following deferment types. These options also apply if a Consolidation loan is disbursed on or after July 1, 1993, to a borrower with any outstanding FFELP loans at the time of consolidation that were first disbursed before July 1, 1993:

- *In-School Deferments*

  When the borrower is enrolled at an eligible school as a full-time or half-time student (see subsection 7.10.A.).

- *Education-Related Deferments*

  When the borrower is engaged in an eligible graduate fellowship program (see subsection 7.10.C.) or rehabilitation training program (see subsection 7.10.D.).

- *Temporary Total Disability Deferments*

  When the borrower is temporarily totally disabled or unable to secure employment because he or she is caring for a spouse or other dependent who is temporarily totally disabled (see subsection 7.10.F.).

- *Unemployment Deferments*

  When the borrower is conscientiously seeking, but unable to secure, employment (see subsection 7.10.E.). [§682.210]

9.5.D. Forbearance

Federal Consolidation loan borrowers remain eligible for all types of forbearance. Forbearance provisions for Consolidation loan borrowers are the same as those for Stafford, PLUS, and SLS loan borrowers (see section 7.11).

9.5.E. Delinquency, Default, and Claim Filing

The due diligence, default, and claim filing requirements for Federal Consolidation loans are identical to those applicable for other loans guaranteed by the guarantor (see chapter 8).

For discharge due to total and permanent disability, the borrower must be considered totally and permanently disabled according to FFELP discharge criteria on all underlying loans included in the Consolidation loan—including any non-FFELP loans. The loan origination dates of the underlying loans will be used in determining a borrower's eligibility.

9.5.F. Paid-in-Full Loans

When a Federal Consolidation loan is paid in full by or on behalf of the borrower, the lender must notify the borrower that the borrower's obligation is fully repaid. The lender also must return to the borrower the promissory note stamped "paid in full" or other notification acceptable under applicable state laws.

Lenders must retain a copy of the promissory note and other key loan documents—as well as a copy of the loan servicing history—for a period of at least five years from the date on which the loan is paid in full. In addition, the lender must report to the guarantor the paid-in-full status of the loan. See section 3.5 for information on lender reporting.

9.6 Interest Benefits and Special Allowance

Interest Benefits

A Federal Consolidation loan is eligible for federal interest subsidy during periods of deferment if the loan was made from an application received by the lender between January 1, 1993, and August 9, 1993, inclusive. However, any portion of the loan that was derived from HEAL or NSL loans is never subsidized.
[HEA 428C(b)(4)(C)(ii)(II)]

A Federal Consolidation loan made from an application received by the lender between August 10, 1993, and November 12, 1997, inclusive, is eligible for interest subsidy during periods of deferment only if all underlying loans are subsidized Stafford loans.

A Federal Consolidation loan made from an application received by the lender on or after November 13, 1997, is eligible for interest subsidy during authorized periods of deferment on any portion of the Consolidation loan that paid an underlying subsidized Federal Stafford loan or an underlying subsidized Direct Stafford Loan. The borrower is responsible for interest payment during periods of authorized deferment on any Consolidation loan, or any portion of a Consolidation loan, that paid any loan type other than a subsidized Federal Stafford loan or a subsidized Direct Stafford loan.
[§682.301(a)]

See appendix A for more information on interest benefits.

Special Allowance

Special allowance provisions for Federal Consolidation loans are the same as those applicable to other FFELP loans disbursed in the same time frame. A Consolidation loan made on or after November 16, 1986, would be eligible for special allowance payments based on the applicable Treasury bill rate (T-bill rate) plus 3.25%. A Consolidation loan made on or after October 1, 1992, would be eligible for special allowance based on the applicable T-bill rate plus 3.10%. The portion of a Consolidation loan attributable to a HEAL loan is not eligible for special allowance.
[HEA 428C(d)(3)(A)]

See appendix A for more information on special allowance.

9.7 Interest Payment Rebate Fee

Each month, a holder must remit to the Department an interest payment rebate fee for all of its Federal Consolidation loans made on or after October 1, 1993. For loans made on or after October 1, 1993, from applications received prior to October 1, 1998, and after January 31, 1999, this fee is equal to 1.05% per annum of the unpaid principal and accrued interest of the loans. For loans made from applications received during the period beginning October 1, 1998, through January 31, 1999, inclusive, this fee is equal to 0.62% per annum of the principal and accrued interest of the loans.
[428C(f)]

Calculating the Fee

To calculate the monthly interest payment rebate fee for loans made on or after October 1, 1993, from applications received prior to October 1, 1998, and after January 31, 1999, the holder should multiply the sum of unpaid principal and interest balances of the applicable loans—as of the end of the month—by 0.0875% (0.000875).

To calculate the monthly interest payment rebate fee for loans made from applications received during the period beginning October 1, 1998, through January 31, 1999, inclusive, the holder should multiply the sum of unpaid principal and interest balances of the applicable loans—as of the end of the month—by 0.0517% (0.000517).

Submitting the Fee

A holder may remit its monthly fee by a check payable to the Department, with the notation "Consolidation loan fee." Checks should be mailed to:

U.S. Department of Education
P.O. Box 371584
Pittsburgh, PA 15251-7584

Alternatively, a holder may send its fee to the Department electronically, using the Automated Clearinghouse (ACH). Payments by ACH should be transmitted to:

Mellon Bank
RTN# 0430-0026-1
ACCT# 9116165

The holder should include with its payment a cover letter identifying the holder's name, the holder's lender identification number (LID), the month to which the fees apply, and the amount of unpaid principal and interest on which the fee was calculated.

Payments must be received within 30 days of the end of the month for which the fee is calculated. For example, fees for the month of February must be submitted by March 30. [HEA 428C(f); DCL 94-G-268]

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10 Cohort Default Rates and Appeals

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Chapter 10 provides an overview of the cohort default rates that are calculated annually for schools, lenders, holders, and guarantors participating in the FFELP. In this chapter, sections 10.2 through 10.5 cover several aspects of school cohort default rates, including how default rates are calculated, how rates affect schools, and how schools can appeal their rates. The last section of this chapter, section 10.6, addresses FFELP cohort default rates and appeals for lenders and holders.

Unless otherwise specifically indicated, each reference in the manual to the cohort default rate includes the FFELP cohort default rate or the weighted average cohort rate.

10.1 Overview of Cohort Default Rates

FFELP cohort default rates—and a series of increasingly stringent school requirements and limitations based on those rates—were added to federal regulations in 1989. These provisions were part of a series of measures introduced to reduce the overall default rate in the federal student loan programs. FFELP cohort default rates for lenders, loan holders, and guarantors were introduced in the 1992 Reauthorization of the Higher Education Act of 1965, as amended. In addition, default rate provisions were expanded in the Omnibus Budget Reconciliation Act of 1993. The weighted average cohort rate was implemented July 1, 1996, for schools with borrowers entering repayment in both the FFELP and FDLP.

A school may be subject to several consequences if its cohort default rate exceeds applicable thresholds established in federal regulations and statute. A school may be required to perform specific default management activities, submit reports, or increase its diligence in helping students understand the importance of their obligations to repay education loans. A school may lose FFELP eligibility or have its participation in Title IV programs limited, suspended, or terminated.

A school may appeal its cohort default rate in some cases. Parameters for appealing default rates are defined in federal regulations. If a school's appeal is successful, its rate may be recalculated, and its eligibility to participate in federal financial aid programs may be upheld.

Some Historically Black Colleges and Universities (HBCUs), and tribally controlled and Navajo community colleges, may qualify for an exemption from the loss of FFELP eligibility based on cohort default rates in excess of applicable thresholds.

For more information on these exemptions, contact the Default Management Division of the Department. Contact information for these offices is included in appendix D.

The Department publishes detailed information on cohort default rates each year and sends it to all participating schools. These publications—the *Official Cohort Default Rate Guide* (previously known as *Enclosure B*) and the *Draft Cohort Default Rate Review Guide*—serve as useful supplements to the federal regulations.

10.2 Calculation of Cohort Default Rates

An official cohort default rate is calculated for a school according to the formulas on the following page. Formula A is used for schools that had 30 or more students enter repayment during the fiscal year for which the rate is being calculated. Formula B is used for schools that had fewer than 30 students enter repayment in the fiscal year for which the rate is being calculated. Official cohort default rates are used to determine whether a school's eligibility to participate in the FFELP, FDLP, or all Title IV programs will be limited, suspended, or terminated.

If a school had fewer than 30 students enter repayment during the fiscal year for which rates are being calculated, and no loan information for the school's students was reported by any guarantor for the specified fiscal year and both of the two previous fiscal years, an unofficial cohort default rate will be calculated. Schools that receive unofficial cohort default rates are not subject to sanctions. [§668.17(d); *Official Cohort Default Rate Guide* (previously known as *Enclosure B*)]

A weighted average cohort rate is required when a school has borrowers entering repayment on both FFELP and FDLP loans in the same fiscal year. Different formulas are used. The formulas used for public schools, private nonprofit schools, and proprietary degree-granting schools are identical to the formulas used to calculate FFELP cohort default rates. However, for proprietary non-degree-granting schools, the formula has been adjusted to include students with FDLP loans in repayment for 270 days under the income-contingent repayment schedule with scheduled payments of less than $15 per month when those payments result in negative amortization. These students will be considered in default for purposes of the weighted average cohort rate calculation.
[§668.17(f)(1)(i) and (ii)]

COHORT DEFAULT RATE FORMULAS

FORMULA A: Schools with 30 or More Students Entering Repayment

$$\frac{\text{Number of students who entered repayment during the specified fiscal year and defaulted within that fiscal year or the subsequent fiscal year}}{\text{Number of students who entered repayment during the specified fiscal year}} \times 100$$

Example
Students entering repayment between October 1, 1994, and September 30, 1995, will be included in the denominator of the cohort default rate calculation for federal fiscal year l995. If any of a student's loans default on or before the end of the next fiscal year (September 30, 1996), that student will also be included in the numerator. Students who enter repayment during fiscal year 1995, but who default after September 30, 1996, will only be included in the denominator of the formula for the fiscal year 1995 default rate calculation.

FORMULA B: Schools with Fewer Than 30 Students Entering Repayment

$$\frac{\text{Number of students who entered repayment during the specified fiscal year and the previous two fiscal years and who defaulted on or before the end of the fiscal year immediately following the fiscal year in which those students entered repayment}}{\text{Number of students who entered repayment during the specified fiscal year and the previous two fiscal years}} \times 100$$

Example
For calculating the federal fiscal year 1993 cohort default rate, the following periods are applicable:

Borrower Entered Repayment	*Borrower Defaulted on or Before*
10/01/90 – 9/30/91	9/30/92
10/01/91 – 9/30/92	9/30/93
10/01/92 – 9/30/93	9/30/94

All of the school's students who entered repayment and subsequently defaulted in the periods specified above are included in the numerator of the formula. All of the school's students who entered repayment during these periods, including those who defaulted, are included in the denominator.

How Students Are Counted

The number of students who enter repayment during a fiscal year is determined by counting the number of different social security numbers present in all of the loan records for students who entered repayment during that fiscal year. As a result, a student with two or more loans that enter repayment during the same fiscal year will be counted only once for purposes of calculating the school's cohort default rate. Such a student would be counted more than once only if he or she borrowed loans to attend more than one school, and those loans entered repayment during the same fiscal year. For lender or holder cohort default rate calculations, a student will be counted more than once if he or she borrowed two or more loans that entered repayment during the same fiscal year, and the loans were originated by, or are currently held by, different lenders.

If a student has loans entering repayment in more than one fiscal year, each loan will be included in the cohort default rate calculation for the fiscal year in which it enters repayment.

About Fiscal Years

Cohort default rates are based on the federal fiscal year, which begins October 1 and ends the following September 30. A fiscal year is denoted by the calendar year in which the fiscal year ends. For example, fiscal year 1995 extends from October 1, 1994, to September 30, 1995.

Where Data Is Obtained

Cohort default rates for fiscal years 1993 and beyond are calculated based on data from the National Student Loan Data System (NSLDS). Guarantors transmit data to the NSLDS on a monthly basis. Information transmitted may reject and guarantors are now required to correct that data. Rates for fiscal years 1992 and earlier were calculated based on data submitted annually by guarantors via tape.

A FFELP cohort default rate is calculated for each school that had current or former students who entered repayment on Stafford loans or SLS loans (or on the portions of FFELP Consolidation loans or FDLP Consolidation loans used to repay such loans) that were received for attendance at the school. Loans transferred from one guarantor to another are reported by the receiving guarantor and are included in the calculation.
[§668.17(f)(1)]

A weighted average cohort rate is calculated for a school that has current or former students entering repayment in a fiscal year on both Direct Stafford loans (or on the portions of Direct Consolidation loans used to repay such loans) *and* FFELP Stafford or SLS loans (or on the portions of FFELP Consolidation loans or FDLP Consolidation loans used to repay such loans).

In the case of a student who has attended and borrowed at more than one school, the student (and his or her subsequent repayment or default) is attributed to the school at which the student received a loan that entered repayment for the fiscal year.
[§668.17(e)(2)(i)]

Types of Loans Included in a Cohort Default Rate

Cohort default rates for fiscal years 1992 and earlier included only Stafford and SLS loans. Rates for fiscal year 1993 and beyond will also include Consolidation loans that repaid Stafford or SLS loans.

The Federal SLS Program was eliminated for enrollment periods beginning on or after July 1, 1994. However, SLS loans will continue to be counted for cohort default rate calculations as those loans enter repayment. For purposes of cohort default rate calculations only, an SLS loan enters repayment as follows:

- The day after the student ceases to be enrolled at least half time.

- The date on which a Stafford loan enters repayment if repayment on the SLS loan is being postponed to coincide with that on a Stafford loan and the borrower is eligible for such postponement.

- The date already established as the repayment period start date if the student defaulted on the loan and a repayment period start date has already been established.

Defaulted loans made under lender of last resort (LLR) provisions may be excluded from a lender or guarantor's cohort default rate. In addition, any FDLP loan that would be considered in the school's FDLP cohort rate on which a borrower has made 12 consecutive, monthly, on-time payments—or any FFELP loan that should be included in the calculation but that has been rehabilitated by a borrower before the end of the following fiscal year—is not considered in default.
[§668.17(d)(1)(ii)(C); §668.17(e)(2)(iii); §668.17(f)(2)(iii); *Official Cohort Default Rate Guide* (previously known as *Enclosure B*)]

A FFELP loan discharged due to death, disability, bankruptcy, closed school, or false certification will not be counted as a default in calculating a cohort default rate if the guarantor was notified of the condition before the loan defaulted.

A loan will be considered to be in default if a payment is made by the school, its owner, agent, contractor, employee, or any other entity or individual affiliated with the school in order to avoid default.
[§668.17(d)(1)(ii)(B); *Official Cohort Default Rate Guide* (previously known as *Enclosure B*)]

Schools That Change Status or Ownership

Detailed information regarding the calculation of cohort default rates for schools that change status—due to opening new branches, merging with other schools or programs, or other changes affecting federal school identification numbers—can be found in federal regulations, as well as the Department's *Official Cohort Default Rate Guide* (previously known as *Enclosure B*) and *Draft Cohort Default Rate Review Guide.*

If a school undergoes a change of ownership, and the school's new owner establishes eligibility for the school as a continuation of the former school, the consequences of the former school's current default rate continue to apply to the school.
[§668.17(g)(1)(iii) and (iv)]

10.3 Effect of Rates on Schools

Default management is an important responsibility for all FFELP participants. Based on its calculated cohort default rate, a school must perform various default reduction activities. These activities are intended to assist student borrowers in understanding their obligations to repay their educational loans and ensure that the school is adequately meeting the needs of its student population.

Through the Department's General Electronic Support (GES) network, schools have access to the National Student Loan Data System (NSLDS) and the data used for cohort default rate calculations. Schools are encouraged to use NSLDS for default management purposes and to monitor their rates on a regular basis. For information about enrolling in GES, contact:

GES Customer Service
P.O. Box 30
Iowa City, IA 52244
Telephone (319) 339-6642

10.3.A. Default Reduction Requirements

A school may be subject to various default reduction requirements based on its calculated cohort default rate.

Cohort Rates: 0% to 20%

A school with a cohort default rate of 20% or less is not required to take additional default reduction actions. The Department urges schools to monitor their default rate situations and take appropriate steps to continue controlling their rates.
[*Official Cohort Default Rate Guide* (previously known as *Enclosure B*)]

Cohort Rates: 20.1% to 40%

A school with a cohort rate of 20.1% to 40% is encouraged to submit a default management plan to the Department and to its principal guarantor. The school may adopt the provisions in §668 Appendix D as its default management plan—or it may compile and submit its own plan for the Department's approval.
[§668.17(b); *Official Cohort Default Rate Guide* (previously known as *Enclosure B*)]

Cohort Rates: Greater than 40%

A school with a current FFELP cohort default rate, weighted average cohort rate, or FDLP cohort rate exceeding 40% may be subject to limitation, suspension, or termination from all Title IV programs. A school in this category will be notified if the Department decides to initiate an administrative action and will be provided an opportunity for a hearing before the decision is effective.
[§668.17(a); *Official Cohort Default Rate Guide* (previously known as *Enclosure B*)]

10.3.B.
Termination of Eligibility

A school will lose eligibility to participate in the FFELP 30 calendar days after receiving notice that its three most recent FFELP cohort default rates are 25% or greater, unless the school submits a timely and complete appeal in accordance with federal regulations. If a guarantor has a question regarding the timeliness of a school's appeal, the guarantor may contact the Department of Education. Detailed information on a school's appeal options and filing deadlines is included in section 10.5.

A school that loses its eligibility on this basis must inform all current and potential students that it is no longer eligible to participate in the FFELP and that students who attend may not receive FFELP funds. However, students already attending the school will remain eligible for in-school deferments based on their attendance at the school.
[§668.17(b) and (c); *Official Cohort Default Rate Guide* (previously known as *Enclosure B*)]

A student who is enrolled at the school and who receives a first disbursement on a FFELP loan before the school loses FFELP eligibility may receive any remaining disbursement of that loan if he or she is otherwise eligible.

A student who is enrolled at the school but who has not received a first disbursement on a student loan by the date on which the school is notified of its ineligibility may not receive funds from a FFELP loan, regardless of any loan guarantees in effect—even if the funds have been disbursed to the school but not yet delivered to the student.
[*Official Cohort Default Rate Guide* (previously known as *Enclosure B*)]

10.3.C.
Limitation, Suspension, or Termination of FFELP Participation

The Department may initiate an action to limit, suspend, or terminate a school's FFELP participation if the school has, for each of the three most recent consecutive fiscal years, any combination of a FFELP cohort default rate, FDLP cohort rate, or a weighted average cohort rate that is 25% or greater.
[§668.17(a)(3)]

10.4
Draft Cohort Default Rates for Schools

Each year, the Department provides schools an opportunity to review and correct information included in their cohort default rates before the final rates are published. Draft cohort default rates are not considered public information and may not be voluntarily released by the Department. The Department calculates draft cohort rates for schools upon receiving FFELP loan data from guarantors.

If a school's draft cohort default rate is greater than 20%, the Department will send to the school the guarantor information used in calculating the school's rate.

If a school's draft rate is 20% or less, the Department will supply information on the borrowers included in the calculation upon the school's request. Such a request must be received by the Department within 10 business days of the date on which the school received the draft rates.

A school will be permitted to appeal a final cohort default rate on the basis of alleged erroneous information only if it first identifies errors in a challenge of its draft default rate.

Within 30 calendar days of its receipt of the draft cohort default rate information, a school planning a challenge must provide to any applicable guarantor(s) a list of the information it believes to be incorrect, evidence to support correction of that information, and the information (backup data) provided by the Department. The guarantor(s) has 30 calendar days to review the information and respond to the school. The guarantor also must provide a copy of its response to the Department.

The Department will change the cohort default rate calculation based on all allegations of error that are raised by a school, confirmed by the guarantor, and approved by the Department.
[§668.17(j)]

Additional Information

A detailed explanation of the structure and content of a valid challenge is included in the *Draft Cohort Default Rate Review Guide*, which the Department provides with draft cohort default rates. Schools should carefully note the time frames and criteria prescribed.

10.5
School Appeals

A school may appeal its cohort default rate if the rate exceeds 20% or the school is subject to a loss of FFELP or Title IV eligibility as a result of its cohort default rates.

Appeal criteria, procedures, and time frames are strictly defined in the federal regulations. A school may appeal for one of the following reasons:

- Exceptional mitigating circumstances
- Erroneous data
- Improper loan servicing and collection (for FFELP cohort default rates only)

Appeals must be initiated and submitted within specific time frames and must include specific information in formats prescribed by federal regulations. Each of the preceding reasons for appeal is subject to different requirements, as outlined in federal regulations and Department publications. These requirements are summarized in subsections 10.5.A., 10.5.B., and 10.5.C. [§668.17(b) and (c); *Official Cohort Default Rate Guide* (previously known as *Enclosure B*)]

A school's appeal must include the school's chief executive officer's (CEO) certification, under penalty of perjury, that all information provided by the school in support of its appeal is true and correct.

If a school continues to participate in the FFELP and the school's appeal of its cohort default rate or loss of FFELP eligibility is unsuccessful, the school is required to pay, to the Department, the amount of interest, special allowance, reinsurance, and any related payments made by the Department (or which the Department is obligated to make) with respect to loans made to students attending or planning to attend the school during the time the appeal was pending.

10.5.A.
Exceptional Mitigating Circumstances

The Department may determine that a school's appeal is valid under exceptional mitigating circumstances, but generally a school that appeals its cohort default rate due to such circumstances must base its appeal on, and provide evidence that substantiates, one of the following:

- The default rate is not significant because the school has a participation rate index of 0.0375 or lower for any one of the three most recent fiscal years for which data is available. The participation rate index is calculated by multiplying the school's FFELP cohort default rate, FDLP cohort default 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 under the FFELP or FDLP for a 12-month period that 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.

  A school that has a FFELP cohort default rate, FDLP cohort rate, or weighted average cohort rate that exceeds 40% may not appeal on the basis of its participation rate index.

- The default rate is a result of the school's service to an economically disadvantaged population. The school must provide documentary evidence that 70% or more of its regular students (as defined in 34 CFR 600.2) enrolled on at least a half-time basis for a 12-month period that 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 were economically disadvantaged.

  Such evidence must demonstrate that those students have expected family contributions (EFC) of zero for any award year that generally coincides with the 12-month period or that those students, and/or their parents or spouses (if applicable), have adjusted gross incomes reported for any award year that generally coincides with the 12-month period, of less than the poverty level, as determined under criteria established by the U.S. Department of Health and Human Services.

- The default rate is a result of the school's service to a low-income population. The school must provide documentary evidence that, for a 12-month period that ended during the 6 months immediately preceding the fiscal year for which the cohort of borrowers used to calculate the school's cohort default rate is determined, at least two-thirds of the students enrolled on at least a half-time basis meet either of the following criteria:

  - The student is eligible to receive a Pell Grant that is at least equal to one-half the maximum available Pell Grant based on the student's enrollment status.

  - The student has an adjusted gross income that is less than the poverty level, as determined by the Department of Health and Human Services. (Please note that the adjusted gross income of a dependent student equals the adjusted gross income of the student's parents plus the adjusted gross income of the student.)

In addition to the requirements listed above for a school to document that 70% of its students are economically disadvantaged or two-thirds of its students are low income, any appeal based on exceptional mitigating circumstances requires a degree-granting school to demonstrate that it is successfully preparing its students for higher learning opportunities and a non-degree-granting school to demonstrate that it is successfully preparing its students for related employment as follows:

- For a degree-granting school, the school had a completion rate of 70% or more of the school's regular students meeting all of the following criteria:

  - The student was initially enrolled on a full-time basis.

  - The student was scheduled, at the time of enrollment, to complete his or her educational program during the same 12-month period chosen by the school to determine the percentage of its students from disadvantaged economic or low-income backgrounds.

  The completion rate is defined as the percentage of regular students who meet any of the following criteria:

  - The student completed the educational program in which he or she was enrolled.

  - The student transferred from the school to a higher-level educational program.

  - The student remained enrolled, at the end of the 12-month period, and was making satisfactory academic progress toward completion of his or her educational program.

  - The student entered active duty in the U.S. Armed Forces.

- For a non-degree-granting school, the school had a placement rate of 44% or more of the school's former regular students meeting all of the following criteria:

  - The student was initially enrolled on at least a half-time basis.

  - The student remained in the program beyond the date on which a 100% tuition refund would have been received from the school.

  - The student was originally scheduled, at the time of enrollment, to complete his or her educational program during the same 12-month period chosen by the school to determine the percentage of its students from disadvantaged economic or low-income backgrounds.

  The placement rate is defined as the percentage of former regular students who meet any of the following criteria:

  - The student was employed, on the date following 12 months after the date of the student's last day of attendance at the school, in an occupation for which the school provided training.

  - The student was employed, for at least 13 weeks before the date following 12 months after the date of the student's last day of attendance at the school, in an occupation for which the school provided training.

  - The student entered active duty in the U.S. Armed Forces.

  The numerator of the placement rate should not include either those students who are still enrolled, on the date following 12 months after the date of the student's last day of attendance, and making satisfactory progress in the educational programs in which they were originally enrolled or those students or former students for whom the school is the employer.

For purposes of the completion rate and placement rate, a student is originally scheduled, at the time of enrollment, to complete the educational program on the date when the student would have been enrolled in the program for the amount of time normally required to complete the program. The “amount of time normally required to complete the program” for a student who is initially enrolled full-time is the period of time specified in the school’s enrollment contract, catalog, or other materials for completion of the program by a full-time student. The “amount of time normally required to complete the program” for a student who is initially enrolled less than full-time is the amount of time it would take that student to complete the program if the student remained enrolled at that level of enrollment throughout the program.
[§668.17(c)(2)]

A regular student is defined as a person who is enrolled or accepted for enrollment at a school for the purpose of obtaining a degree, certificate, or other recognized educational credential offered by that school.
[§600.2]

In appeals based on exceptional mitigating circumstances, the school must include an independent auditor’s opinion on management’s assertions that the information contained in the appeal is complete, accurate, and determined in accordance with federal regulation 34 CFR 668.17(c)(7). The independent auditor’s examination level engagement must be performed in accordance with Statement on Standards for Attestation Engagements #3. This opinion must be submitted within 60 days following the date the school receives notification of its loss of eligibility.

A school must submit appeal data within 30 days following the date of notification; the auditor’s statement must be submitted within 60 days following the date of notification.
[§668.17(c)(1)]

Time Frames

Unless the school appeals the cohort default rate, the school’s loss of eligibility is effective 30 calendar days after receiving notice from the Department that each of the school’s FFELP cohort default rates for the applicable 3-year period equaled or exceeded 25%.

The school must submit its complete written appeal to the Department by the 30th calendar day following the date of the school’s receipt of the Department’s notification letter. If a guarantor has a question regarding the timeliness of a school’s appeal, the guarantor may contact the Department of Education. The Department will not accept an appeal or any portion of an appeal after the 30-day deadline.
[§668.17(c)(1)]

Additional Information

A detailed explanation of the structure and content of a valid appeal is included in the *Official Cohort Default Rate Guide* (previously known as *Enclosure B*). This publication is published annually by the Department and provided to schools with cohort default rate information. Schools should refer to this publication and carefully note the time frames, statistical parameters, and criteria prescribed.
[§668.17(b) and (c); *Official Cohort Default Rate Guide* (previously known as *Enclosure B*)]

10.5.B. Erroneous Data

A school may appeal its loss of eligibility due to cohort default rates by demonstrating that erroneous data was used to calculate its cohort default rate for one or more of the three applicable fiscal years. The school also must demonstrate that at least one of its rates for the three applicable fiscal years would be reduced below 25% if recalculated based on corrected data.

A school may appeal an official cohort default rate on the grounds of erroneous data only in one of the following cases:

- The school challenged the errors in the data used to calculate its draft rate during the prepublication review period, but the allegations of error were not resolved before the calculation of the school’s official cohort default rate.

- The school’s official cohort default rate was calculated with default rate data that were not provided during the prepublication review period.

Time Frames

A school must meet the following requirements when appealing its loss of eligibility on the basis of erroneous data:

- The school must request that each applicable guarantor verify the alleged inaccuracies in the data used to calculate the school’s cohort default rate. This request must be in writing and must include supporting documentation of the alleged inaccuracies. The school must simultaneously forward a copy of the request to the Department’s Default Management Section.

To remain eligible beyond the initial 30-day period for appeals, the school must submit the preceding request within 10 *business* days from the date the school receives notice that its eligibility is being terminated.

- The school must submit to the Department all information required by the Department to substantiate the appeal, and all information must be submitted in a format prescribed by the Department. The school must not send the appeal until all information is received from all of the guarantors from which the school requested verified data. Verified data should be forwarded to the Department within 5 *business* days of receiving complete data from all of the guarantors.

- The school's completed appeal must be submitted to the Department within 30 *calendar* days of the school's receipt of notice that its eligibility is being terminated.

A school may be unable to submit its appeal with all required documentation to the Department within 30 *calendar* days if all applicable guarantor research is not completed within this time frame. Under federal regulations, guarantors must respond to school requests for data verification within 15 *business* days. A school will not be penalized for a guarantor's failure to respond to the school's request for verification within 15 *business* days—provided the school sends a letter to the Department explaining that it is appealing its loss of eligibility based on erroneous data and that it has requested verification from all applicable guarantors within the 10-day time frame. The school must send copies of all requests for verification to the Department at the same time those requests are sent to the applicable guarantors. Copies of any other school correspondence with the guarantors should also be sent to the Department. An appeal will be considered complete only when the Department has received all of the school's supporting documentation from applicable guarantors.

Additional Information

A detailed explanation of the structure and content of a valid appeal is included in the *Official Cohort Default Rate Guide* (previously known as *Enclosure B*), which the Department provides with cohort default rates. Schools should carefully note the time frames, statistical parameters, and criteria prescribed.
[§668.17(b) and (c); *Official Cohort Default Rate Guide* (previously known as *Enclosure B*)]

10.5.C.
Improper Loan Servicing or Collection

A school may appeal a FFELP, FDLP, or weighted average cohort default rate by alleging that improper servicing caused defaults on specific loans that were included in the calculation of its cohort default rate. An appeal on the basis of improper loan servicing or collection will be permitted if the school is notified that its FFELP eligibility is subject to termination as a result of its FFELP, FDLP, or weighted average cohort default rate or the school is notified that its most recent FFELP, FDLP, or weighted average cohort default rate exceeds 20%.
[HEA 435(a)(3)(C); §668.17(c) and (h)]

In an appeal based on improper loan servicing or collection, the Department must ensure that a school has access for a reasonable period of time, not to exceed 30 days, to a representative sample of the relevant loan servicing and collection records used by a guarantor in paying default claims or by the Department in determining a school's default rate in the loan program under Part D of this title.
If a school proves, during the appeal process, that a loan or loans defaulted due to improper loan servicing or collection, the Department will adjust the numerator and denominator of the school's FFELP, FDLP, or weighted average cohort default rate based on statistical inference from the appropriate representative sample. A loan will be considered to have defaulted due to improper servicing or collection only in cases where the following occurred:

- The borrower never made a payment on the loan.

- The school proves that the lender committed one or more of the following servicing or collection errors:

  - The lender failed to send at least one letter, other than the final demand letter, urging the borrower or endorser to make payments on the loan (if the lender was required to send such letters).

  - The lender failed to attempt at least one telephone call to the borrower or endorser (if such attempts were required).

  - The lender failed to submit a request for preclaim assistance to the guarantor (if such a request was required).

  - The lender failed to send a final demand letter to the borrower (if required).

- The lender failed to submit a required certification (or other evidence) that skip tracing was performed.
  [§668.17(h)(3)(viii)]

Time Frames

A school must notify the Department in writing that it intends to appeal its FFELP cohort default rate. This notice must be received by the Department within 10 business days of the date the school receives its most recent FFELP cohort default rate information from the Department.

A school also must provide notice of its intent to appeal to all guarantors that contributed loan information to the calculation of its rate. This notification must occur within 10 *business* days from the date on which the school receives its rate information from the Department. A school must include with its notification to each guarantor a copy of the list of borrowers who were included in the calculation (which the Department includes with rate information). A guarantor is required to identify and provide to the school a statistically valid, representative sample of those borrowers within 15 *business* days of receiving the list of borrowers.

A guarantor may charge the school a reasonable fee for the records, which will not exceed $10 per borrower file. A guarantor that charges a fee will notify the school of the total fee amount for the records included in the sample within 15 *business* days of receiving the school's request. Upon receiving the fees, the guarantor will provide to the school collection and servicing records for loans in the sample, a list of the loans included in the sample, and a description of how the sample was chosen. The guarantor will send the Department the list of loans in the sample, in social security number order, and the description of how the sample was selected at the same time the material is sent to the school.

If a school does not pay the fees required by a guarantor within 15 business days of the date the school receives notice of the fee, the school is considered to have waived its right to appeal its FFELP cohort default rate on the basis of improper servicing or collection. The guarantor is not required to provide records in this case. The guarantor will notify the school and the Department in writing of the school's failure to pay the fee and the school's waiver of its right to appeal. Unless the school proves that a guarantor's conclusion is incorrect, the Department will conclude that the school has not met its burden of proof regarding the loans insured by the guarantor.
[§668.17(h)(3)(iii)(D)–(F)]

A school must file its appeal on the basis of improper servicing or collection within 30 *calendar* days of receiving records from all applicable guarantors. If the school is simultaneously appealing its cohort default rate on the basis of erroneous data, the school may delay submitting its appeal until all information requested to substantiate both reasons for appeal is obtained. Appeals are considered filed upon receipt at the Department.

An appeal on the basis of improper servicing or collection must include the following documentation:

- A list of loans included in the default rate calculation that the school alleges were incorrectly serviced or collected and that contributed to an inaccurate default rate calculation.

- Copies of all servicing and collection records and any other evidence related to loans on which the servicing or collection activities are being challenged as improper.

- An explanation of how the alleged servicing or collection inadequacies resulted in an inaccurate calculation of the default rate.

- A summary of the appeal, listing the number of loans insured by each guarantor that was included in the calculation of the cohort default rate and the number of loans that would be excluded due to the servicing and collection inadequacies.

- A certification by an authorized official of the school that all information provided by the school in the appeal is true and correct.

If a school does not initiate a challenge to its FFELP cohort default rate within the required 10-day period, the school is prohibited from challenging the rate at any other time or in any other proceeding before the Department.

Additional Information

Detailed information on appeal time frames and requirements is included in the *Official Cohort Default Rate Guide* (previously known as *Enclosure B*) and the federal regulations. A school that plans to appeals its FFELP cohort default rate should refer to each of these important documents.
[§668.17(b) and (h); *Official Cohort Default Rate Guide* (previously known as *Enclosure B*)]

10.6
Cohort Default Rates for Lenders and Holders

The Department now publishes FFELP cohort default rates for lenders, holders, and guarantors. Each year, a FFELP cohort default rate is calculated for each lender identification number (LID) and for each guarantor identification number. The rate is calculated from information supplied to the Department by guarantors. Information on lender and holder FFELP cohort default rates may be obtained by contacting the Department's Guarantor and Lender Oversight Staff.

There are currently no consequences for lenders and holders associated with FFELP cohort default rates. However, a lender or holder may wish to appeal its rate if it identifies any discrepancies in the data used to calculate its rate. Currently, an appeal based on erroneous data is the only FFELP cohort default rate appeal available to lenders and holders.

The Appeal Process

Following are procedures for appealing a lender or holder FFELP cohort default rate on the basis of erroneous data:

- The lender or holder should promptly request backup data from the guarantor. The request should be signed by an official of the lender or holder who is authorized to act on its behalf in this regard.

  The guarantor should promptly respond to the request by providing the backup data.

- After reviewing the backup data, the lender or holder should submit documentation supporting its claim of erroneous data to the guarantor. Each record submitted should be clearly identified with the borrower's name, social security number, and the nature of the error. This documentation may include items such as notices of change of enrollment, canceled checks, or other information pertinent to resolving the discrepancy.

  The guarantor will then analyze the information and decide whether it agrees with each requested correction. The guarantor must inform the lender or holder of its conclusion and send a copy of the response letter to the Department.

- The lender or holder should send a letter to the Department indicating whether it agrees or disagrees with the guarantor's conclusion.

The Department will make the final ruling on whether to adjust the lender's or holder's FFELP cohort default rate based on the information provided.

Correspondence on lender or holder appeals of FFELP cohort default rate data must be addressed to:

U.S. Department of Education
Attn.: Default Coordination Team
600 Independence Avenue, S.W.
ROB-3, Room 4614
Washington, D.C. 20202-5138

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11 Program Reviews

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Guarantors are required by federal regulations to conduct comprehensive biennial program reviews of certain schools and lenders participating in the FFELP. Guarantors, at their option, may elect to review third-party servicers.

Program reviews are conducted by the guarantor and the Department to assess the administrative and financial capability of schools, lenders, and servicers with respect to participation in the FFELP. Chapter 11 describes the criteria used in determining which entities are reviewed, the various stages of the review process, and the most common findings in program reviews.

All references to lenders in this chapter include the originating lender and any subsequent holder, as defined in section 3.1.

11.1 Purpose and Scope of Program Reviews

A program review measures an entity's compliance with all applicable requirements related to its FFELP participation and administration. Schools, lenders, and servicers participating in the FFELP must comply with the requirements of:

- The Higher Education Act of 1965, as amended.
- Federal regulations (§600, §668, and §682).
- Guarantor policies and procedures.

A review is intended to ensure compliance with these provisions and to assess the financial viability of a school or lender.

A guarantor is required to conduct a biennial on-site program review of each school and lender that meets criteria specified in federal regulations (see subsections 11.2.A. and 11.2.B.). If a lender or school uses a servicer to meet some or all of its responsibilities under the FFELP, all or a portion of the program review may be conducted at the servicer. However, the school or lender remains responsible for the results of the review. Lenders and schools must work closely with their servicers to ensure consistent compliance with federal regulations and guarantor policies and procedures.

In some cases, a guarantor may conduct a joint school, lender, or servicer review with another entity (such as the Department, a state licensing agency, etc.). When a joint review is conducted, each reviewing entity is responsible for the quality of the review. Also, a guarantor may establish a reciprocal agreement with another entity to perform reviews. Under a reciprocal agreement, the entity performing the review is solely responsible for review quality.

11.2 Selecting Entities for Program Review

A guarantor selects entities for program review based on requirements prescribed in federal regulations and other criteria it considers pertinent to the efficient, effective administration of the FFELP.

11.2.A. Selection Criteria for Schools

Federal regulations require the guarantor to perform a biennial program review of each school—in any state in which it is the primary guarantor—that has had a cohort default rate exceeding 20% for either of the two most recent years for which rates have been calculated. A school may be exempted from review if it meets either of the following criteria:

- The school has a cohort default rate exceeding 20%, but it has less than $100,000 in loans entering repayment in each of the two applicable years.
- The school is required by the Department to follow specific default reduction measures as a result of its cohort default rates (see chapter 10).
  [§682.410(c)]

The guarantor may request that the Department approve substitutions to its list of required school reviews. As part of such a request, the guarantor must present the method used to select alternate review candidates, a list of the requested changes to the review schedule (which schools are to be substituted for others), and its justification for the substitutions.

In addition to the federal criteria used in selecting schools for review, a guarantor may consider other factors, including:

- Loan volume trends (such as a substantial increase or decrease over the past year).
- Significant increases in cumulative or cohort default rates.
- Evidence of regulatory violations, such as:
  - Late or unpaid refunds.
  - Improper admissions procedures.
  - Improper loan check processing procedures.
- Evidence of potential fraud or abuse in its FFELP participation.
- Evidence that the school has been placed on the Pell reimbursement system for payment.
- Complaints from lenders, borrowers, or students.
- Evidence that the school has failed to adequately address deficiencies identified in prior program reviews.
- Evidence that the school has failed to implement improvements to reverse negative financial trends.
- Weaknesses identified during the process by which schools first obtain FFELP eligibility.

11.2.B. Selection Criteria for Lenders and Servicers

Federal regulations require a guarantor to perform a biennial program review of each lender—and/or servicer for that lender—that meets one of the following criteria with respect to the volume of FFELP loans made or held by the lender, and guaranteed by the guarantor, during the preceding year:

- The lender's volume represented 2% or more of the guarantor's volume of FFELP loans guaranteed during the preceding year.
- The lender was one of the guarantor's top ten lenders as measured by its volume for the preceding year.
- The lender's volume during the most recent fiscal year equaled or exceeded $10 million.

A guarantor also is required to review each holder of loans that functions in a designated state as a private, nonprofit secondary market.
[§682.410(c); HEA 435(d)(1)(D) and (J)]

A guarantor may request that the Department approve substitutions to the list of required lender reviews. As part of this request, the guarantor must provide its methodology used for alternate selections, a list of the requested changes to the review schedule (which lenders are to be substituted for others), and justification for the substitutions.

In addition to the federal criteria used in selecting lenders for review, a guarantor may consider other factors, including:

- Loan volume trends (such as a substantial increase or decrease over the past year).
- Significant increases in cumulative or cohort default rates.
- Evidence of regulatory violations, such as:
  - Incorrect ED Form 799 billings.
  - Improper due diligence.
  - Late conversions of loans to repayment.
  - Improper claim filing procedures.
- Evidence of potential fraud or abuse in its FFELP participation.
- Complaints from schools, students, or borrowers.

11.3
The Program Review Process

A program review begins when the school, lender, or servicer is selected for review according to federal or guarantor criteria. The review ends when the guarantor accepts a satisfactory response to the review findings from the school, lender, or servicer.

A program review consists of four distinct phases:
- The preliminary review
- The on-site review
- The issuance of a program review report
- The review close-out

These phases are described in the following four subsections.

11.3.A.
The Preliminary Review

During the preliminary review, a guarantor establishes contact with the school, lender, or servicer to be reviewed. The entity is advised that it has been selected for a program review and is notified of the date(s) of the on-site review. The notification letter requests that the party being reviewed provide specific administrative and financial information related to its eligibility and participation in the FFELP. This information normally includes, but is not limited to:

For Schools
- School catalog
- Documentation from prior program reviews
- Independent audit results
- Student Financial Aid audit results
- Audited financial statements
- Program Participation Agreement
- Accreditation reports/certification
- State licensing documentation
- Default management plan, if applicable
- Individual borrower files

For Lenders
- FFELP lending policies
- Documentation from prior program reviews
- Independent audit results
- Audited financial statements
- ED Form 799 billings
  Documentation of loan transfers
- Individual borrower files

For Servicers
- System procedures and internal controls
- Details on accuracy of data retained or transmitted
- Interest billing information for lenders, if applicable
- Documentation from prior program reviews
- Audited financial reports
- Independent audit results
- Individual borrower files

A guarantor also may require the school, lender, or servicer to complete a questionnaire on internal procedures and policies related to its FFELP participation.

Prior to an on-site review, a guarantor will develop a profile of the entity to be reviewed from the information provided by that entity and other data maintained by the guarantor. This profile is used to acquaint a reviewer with the institution and to expedite an efficient and thorough review.

To ensure that an appropriate cross-section of the entity's borrower files will be examined, the guarantor also identifies a sample of the entity's borrower population for review. These files will be reviewed by the guarantor during the on-site visit.

11.3.B.
The On-Site Review

The on-site review has three key components: the entrance interview, the review of borrower files and supporting documentation, and the exit interview.

Entrance Interview

During the entrance interview, the school, lender, or servicer is informed about the review process and given the opportunity to present questions or concerns to the reviewer(s).

A school should ensure that representatives from its financial aid, admissions, registrar's, and bursar's or business offices are present at the entrance interview. These officials also should be available during the on-site review of borrower files and at the exit interview to answer questions or supply additional material if necessary.

A lender should ensure that individuals representing the areas of application processing, disbursement, repayment servicing, due diligence, collections, claim filing, and ED Form 799 billing are available during the entrance, on-site, and exit phases of the review.

A servicer should ensure that representatives of each function that it performs for clients are available.

Review of Borrower Files and Other Documentation

The on-site review of selected borrower files, and of all materials and procedures related to the entity's participation in the FFELP, is performed to evaluate compliance with federal regulations and adherence to guarantor policy. The review is also undertaken to identify areas where additional training or corrective action may be appropriate. During the review of borrower files and other documentation, entity representatives may be informed of major concerns and issues needing clarification.

Following are several key items to be reviewed for each type of entity. A guarantor may choose to review other items not included on these lists.

For Schools
- Admissions requirements
- Enrollment agreements and contracts
- Statements of selective service registration
- Statements of educational purpose
- Citizenship status
- Pell Grant eligibility
- Financial Aid Transcripts (FATs)
- Verification and certification process, if required
- Student budget and cost of attendance calculation
- Satisfactory academic progress standards/enforcement
- Leaves of absence
- FFELP loan check processing procedures
- EFT and master check procedures
- Determination of withdrawal dates
- Refund calculation and notification
- Entrance and exit counseling
- Withdrawal rate
- Student Status Confirmation Reports (SSCRs)
- Overall administrative capability
- Separation of duties
- Adequacy of staffing
- Financial responsibility
- Prior program review findings
- Attendance records
- Loan information and supporting documentation
- Master promissory note notification or confirmation procedures

For Lenders
- Loan amounts
- Interest rates
- Disbursement procedures
- Disclosures of rights and responsibilities
- PLUS loan credit checks
- Out-of-school dates
- Conversion of loans to repayment
- Application of prepayments and refunds
- Deferments and forbearances
- Interest accrual and capitalization
- Due diligence
- Skip tracing
- Claim filing
- ED Form 799 billings
- Reconciliation of loan sales/acquisitions
- Prior program review findings
- Loan information and supporting documentation
- Master promissory note notification or confirmation procedures

For Servicers
- Prior program review findings
- Audited financial statements
- System of control
- Functions noted for schools and lenders in the preceding lists, if performed by the servicer

Exit Interview

The exit interview is used to inform the school, lender, or servicer of any concerns or findings of noncompliance. In addition, the exit interview allows the entity an opportunity to clarify remaining issues and pose questions or concerns about the review. Generally, information discussed during the exit interview will be included in the final program review report issued by the guarantor.

11.3.C. Program Review Report

The program review report is written by the guarantor and issued to the school, lender, or servicer. The report identifies all borrower files reviewed, any findings of noncompliance, and any required corrective actions. The report also may list recommendations in the case of findings that may not warrant corrective action, but that the entity should address nonetheless.

A school, lender, or servicer must complete all required actions noted in the report by the date indicated. In addition, the entity must prepare and submit a response to the program review report to the guarantor by the date indicated in the report. If the report notes liability due as a result of the review, the entity is instructed how to make payment and is informed of the date by which the payment is due.

Common Findings

Following are the most common program review findings for schools, lenders, and servicers. These are the areas that most frequently result in problems or liabilities. Schools, lenders, and servicers should perform internal audits—and obtain, as applicable, a lender's or servicer's audit—to assess compliance in the following areas.

For Schools

- Improper administration of admission requirements (such as ability-to-benefit and high school diploma and GED requirements)
- Improper loan application certification
- Noncompliance with §682, Appendix D of the federal regulations (such as additional references, preclaim contact, grace letters)
- Eligibility documentation for noncitizens missing
- Financial aid information from student's previous postsecondary school missing or not obtained timely
- Improper verification (such as missing or unsigned documents)
- Student budget exceptions (such as cost of attendance, expected family contribution, and estimated financial assistance discrepancies)
- Improper satisfactory academic progress standards or enforcement
- Enrollment status discrepancies
- Entrance or exit counseling not conducted or documentation missing
- Late refunds or incorrect refund calculation
- Pro rata refund policy applied incorrectly

For Lenders

- Improper interest rates
- Improper endorsement on disbursement checks
- Original or lender copy of application missing from file
- Guarantee disclosure missing from file
- Incorrect out-of-school date
- Late conversion to repayment
- Untimely updating of address and telephone number changes
- Deferment or forbearance granted improperly
- Improper or inadequate due diligence performed
- Unreconciled loan transfers/acquisitions

For Servicers

- Due diligence violations in loan servicing
- Insufficient controls to ensure proper and prompt funds movement between the school, lender, and/or servicer
- Improper reconciliation of school or lender records to servicer records

11.3.D. Program Review Close-Out Procedures

The process of closing a program review begins when the program review report is issued to the school, lender, or servicer. The process of closing a program review ends when all required actions are completed and all liabilities are paid by the entity. When this has occurred, the guarantor will notify the school, lender, or servicer in writing that the program review is closed. The Department will also be notified when the program review is closed.

If a guarantor is unable to close a program review because the school, lender, or servicer is uncooperative in taking the required corrective action, the case will be referred to the Department for follow-up.

The guarantor may pursue a limitation, suspension, or termination action as a result of a program review. Limitation, suspension, and termination provisions are described in chapter 12.

If potential fraud or abuse with respect to FFELP participation is identified during a review, the reviewer is obligated to notify and forward all supporting documentation to the Department's Office of Inspector General.

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12 Limitation, Suspension, and Termination

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Chapter 12 outlines the process under which the participation of an eligible school, lender, or servicer may be limited, suspended, or terminated. A guarantor is required to establish and publish standards regarding limitation, suspension, and termination (LS&T) proceedings, as prescribed in the Higher Education Act of 1965, as amended (the Act), and federal regulations.

In this chapter, the word *entity* refers to schools, lenders, and secondary markets.

12.1 Actions to Limit, Suspend, or Terminate Participation

Federal law requires guarantors to vigorously enforce all federal and state laws applicable to the federal loan programs. Specifically, a guarantor is required to conduct compliance reviews of participating schools, lenders, and secondary markets—and to limit, suspend, or terminate participation in the event of noncompliance. If a guarantor finds indications of fraudulent or criminal activity, it must refer the matter to the appropriate law enforcement agencies. If the entity or its owner is convicted of, or pleads no contest or guilty to, unlawful activities with respect to FFELP funds, grounds for termination of an entity's eligibility to participate in the FFELP are established. [§682.410(c); §682.706]

In fulfilling its responsibility as a regulator, a guarantor closely cooperates with licensing and accrediting agencies, the Department, and other appropriate organizations.

When an LS&T Action May Be Warranted

A guarantor may initiate a limitation, suspension, or termination action if it obtains reliable information demonstrating any of the following:

- An entity has failed to meet requirements applicable to its participation in the FFELP. These requirements are defined in federal and state law and regulations, guarantor policies and procedures, Department and guarantor agreements, and any previously imposed limitations.

- A participating entity no longer meets eligibility requirements for FFELP participation (for example, an entity loses its licensure or accreditation).

- One or more employees of the entity have misrepresented information or engaged in fraudulent activities.

An LS&T action does not limit an entity's responsibility to comply with all requirements applicable to FFELP participation—nor does an LS&T action limit the entity's right, if any, to benefits or payments based on previous participation in the guarantor's programs.

If the Department restricts an entity's FFELP eligibility through an LS&T action or emergency action, federal law requires that guarantors impose the same restriction on the entity.

Actions to Remove a Servicer's Eligibility

The U.S. Department of Education or a designated Department official may take action to remove a third-party servicer's eligibility to contract with a participating lender or school for an indefinite period of time.
[§682.701; §682.706]

Individuals Involved in LS&T Proceedings

Throughout this chapter, references are made to individuals who will be appointed to function in various capacities during any LS&T proceeding:

- The *Official* is the president or chief executive officer of the guarantor—or any officer of the guarantor to whom the president or chief executive officer has delegated the responsibility for initiating an action under the provisions of this chapter.

- The *Hearing Officer* is the person who presides over the hearing, if one is requested by the entity. The Hearing Officer must be a person with no previous involvement with the facts giving rise to a dispute under this chapter. The Hearing Officer is selected by the guarantor and may be employed by the guarantor.

- The *Show-Cause Official* is the person who has the authority to grant relief in an entity's appeal of an emergency action (see subsection 12.1.D.). The Show-Cause Official must not be the initiating Official of the emergency action.

12.1.A. Limitation

A limitation action restricts the FFELP participation of an entity under the guarantor's programs.

A guarantor may initiate a limitation action as a result of the entity's failure to respond to a guarantor's notice of action or as a result of a decision by the Hearing Officer. The action may contain an ending date for the limitation, or it may be effective for an indefinite period. The terms of the limitation may include instructions for the entity to make restitution (repay funds) for violations resulting in losses to FFELP participants.

Limitation of a School

Limitation of a school may include, but is not limited to, the following provisions:

- A limit on the number or percentage of enrolled students who may obtain FFELP loans.
- A requirement that the school obtain a bond of a specified amount to ensure its ability to meet its financial obligations.
- A limit on the percentage of the school's total receipts for tuition and fees that may be derived from FFELP loans for a specific period of time.
- Other reasonable limits on the school's participation in a guarantor's programs.

Limitation of a Lender

Limitation of a lender may include, but is not limited to, the following provisions:

- A limit on the number or total dollar amount of FFELP loans that the lender may make, purchase, or hold.
- A limit on the number or total dollar amount of FFELP loans that the lender may make for students enrolled at a particular school.
- Other reasonable limits on the lender's participation in the guarantor's programs.
  [§668.86; §682.702]

12.1.B. Suspension

Under a suspension action, the guarantor ceases processing and guaranteeing loans that would otherwise be made for students attending a suspended school or that would be made by a suspended lender. A suspension action does not preclude the disbursement by a suspended lender, or the delivery by a suspended school, of loans that were guaranteed before the suspension action—unless specifically stated in the notice of suspension.
[§668.85; §682.705]

A guarantor may initiate a suspension action as a result of the entity's failure to respond to a notice of action or as a result of a decision by the Hearing Officer. If a suspension action is initiated, a notice is sent by certified mail (return receipt requested). An effective date for the suspension is disclosed in this notice; the effective date will be set at least 20 days after the date the notice is mailed. A suspension action removes the entity's eligibility to participate in the FFELP for a maximum of 60 calendar days, unless either of the following occurs:

- The Official and the entity (if the entity has not requested a hearing) agree to an extension of the suspension action—not to exceed 30 calendar days.
- The Official begins a limitation or termination action, in which case the suspension action continues until the other hearing, including the notification period, is complete.
  [§668.85; §682.705(a)]

12.1.C. Termination

A termination action rescinds an entity's eligibility to participate in the FFELP under the guarantor's programs. The action prohibits a lender from disbursing, or a school from delivering, any new loan proceeds. Lenders also may be prohibited from making further disbursements on loans that were guaranteed before the effective date of the termination.
[§682.702(d)]

A guarantor may initiate a termination action by sending a notice of the action to the entity by certified mail (return receipt requested) or by other means consistent with any agreement between the guarantor and the entity. The latter means may be used if it is determined by the Department or guarantor that the entity fails to comply with requirements applicable to its participation in the FFELP. These requirements include those defined in federal and state law and regulations, guarantor policies and procedures, Department and guarantor agreements, and any previously imposed limitations.
[§668.86; §682.702(c)]

12.1.D. Emergency Action

A guarantor may initiate an emergency action to immediately suspend an entity's eligibility for up to 30 days. A guarantor is authorized by the Act to take emergency action if it has information supporting both of the following:

- An entity is not complying with requirements applicable to its participation in the FFELP. These requirements include those defined in federal and state law and regulations, guarantor policies and procedures, Department and guarantor agreements, and any previously imposed limitations.

- Immediate action is necessary because the alleged noncompliance will result in misuse of federal funds—or substantial losses to the guarantor, student, borrower, or the federal government.

An emergency action by the guarantor bars further processing or guaranteeing of loans for a specified period. The action does not prohibit the disbursement or delivery of loans guaranteed before the emergency action, unless specific notification is made.

A guarantor may initiate an emergency action if it has reasonably determined that the likelihood of loss outweighs the importance of following the LS&T proceedings detailed in this chapter. A guarantor's decision to take an emergency action is not subject to review.

Appealing an Emergency Action

An entity may appeal an emergency action by requesting, in writing, an opportunity to show cause that the emergency action is unwarranted. Upon receiving a request for a show-cause hearing from the entity, the guarantor will appoint a Show-Cause Official and promptly inform the entity of the hearing location and date.

The only information that may be presented at a show-cause hearing is information concerning whether the emergency action is warranted. The entity has the burden of demonstrating that the emergency action is not warranted or that it should be modified. The Show-Cause Official will evaluate any material provided and make a final determination on the validity of the emergency action. The guarantor will notify the entity of the Show-Cause Official's decision by indicating whether the emergency action remains in effect or has been canceled. The Show-Cause Official's decision on the emergency action is final and will promptly be reported in writing to all concerned parties.
[§668.83]

When an Emergency Action Ends

An emergency action ends no more than 30 days after the initial effective date (the date the notice was sent by the guarantor), unless the entity is notified that the guarantor has initiated an LS&T action during the emergency action. If an LS&T action has begun, the emergency action remains in effect until the LS&T proceedings are concluded. In this case, the terms of the emergency action are converted to the terms of the LS&T action as specified by the Hearing Officer. If an emergency action expires before a subsequent LS&T action begins, the entity must treat loans that have not yet been disbursed or delivered in accordance with any terms of agreement in the emergency action.
[§668.83; §682.704]

The guarantor and the entity may enter into an agreement that fully or partially resolves the dispute between the parties. If the agreement fully resolves the dispute, and the agreement so specifies, any pending hearing may be canceled. If the entity violates any of the provisions of the agreement, the guarantor may again take any action outlined in this chapter or the agreement.

12.2
Proceedings

A guarantor initiates a limitation, suspension, or termination by sending notice of the action to the entity by certified mail (return receipt requested).

An action is effective no earlier than 20 days after the date the notice is mailed. The notice informs the entity of the action, the consequences of the action, the alleged violations that constitute the basis for the action, the legal basis for the action, and the right of the entity to appeal. The entity also is notified that it has a specific number of days in which to respond to the notice and that failure to respond within that time frame will result in the action taking effect automatically. The guarantor is required to notify the Department of any final action.
[§682.410(c)(9)(i)]

12.2.A.
Appealing an LS&T Action

An entity may challenge an LS&T action by submitting a written appeal to the guarantor. The notice must specify which of the following two appeal options is being exercised:

- *Appeal by Submission*
  The entity may submit a written appeal and supporting documentation. If submitted by the guarantor's deadline, the Official will consider the appeal and notify the entity of the decision to dismiss the proposed action or make the action effective on a specified date.

- *Appeal by Hearing*
  The entity may request a hearing. If a written request is received by the guarantor on or before its deadline, a hearing will be scheduled and the LS&T action, if applicable, will not be imposed until the appeal process is completed. If a request for a hearing is not received by the guarantor's deadline, the entity's right to a hearing is considered to be waived.

An entity may cancel an appeal by providing the guarantor with a written statement withdrawing the appeal and acknowledging that the applicable LS&T action is in effect.

12.2.B.
Prehearing Conference

The Hearing Officer may convene a prehearing conference if it appears that such a conference would be useful or if the conference is requested by the official or entity before the guarantor's deadline. A prehearing conference may take any form, including a telephone call or submission of written material by the entity to the Official.

In a prehearing conference, the Official and representatives of the entity may discuss the proposed action. Information may be exchanged on appeal procedures, a settlement, or a narrowing of the legal or factual issues to be resolved at the hearing. A prehearing conference is not subject to procedural requirements, except those to which the Official and the entity agree. As a result of the prehearing conference, the Official and the entity may enter into a prehearing agreement, signed by both parties, stipulating certain facts, procedures, or points of law. With the approval of the Official and the consent of the entity, any schedule specified in this chapter may be shortened.
[§668.87]

12.2.C.
Hearing

The Official will set the date and location of a hearing and will promptly inform the entity. The hearing date will be at least 15 days after the date the guarantor receives the hearing request. The hearing may be set in any city in which the guarantor's offices are located and that reasonably affords the entity an opportunity to participate.

Before the hearing, the Hearing Officer may issue a prehearing order to provide for a timely exchange of exhibits and a list of witnesses. The Hearing Officer presides over the presentation of evidence, followed by argument, and, if the Hearing Officer requests, submission of written briefs. The Hearing Officer may take appropriate measures to expedite the proceedings, which may include setting a schedule for the submission of written documents and legal memoranda, setting page limits on the filing of memoranda, and regulating the conduct of the parties to ensure a fair, impartial hearing. The Hearing Officer may consider a party that fails to comply with the orders of the Hearing Officer as being in default and may issue a decision—without a hearing—against the noncomplying party.

The Hearing Officer does not have the authority to issue subpoenas (except in Kentucky). If requested by the Hearing Officer, the guarantor and the entity must provide available personnel, who have knowledge about the matters under review, for examination under oath. Examinations may be conducted orally or in the form of written interrogations.

Formal rules of evidence and procedures applicable to a court of law normally do not apply.* Cross examination necessary for a full disclosure of the facts is permitted. The entity may be represented by legal counsel at the hearing, but the guarantor is under no obligation to provide such counsel. Formal rules of discovery normally do not apply, but the parties are encouraged to exchange relevant documents or information. The Hearing Officer may exclude evidence that is irrelevant, immaterial, unduly repetitious, or inherently unreliable.

*In some states (such as Illinois), state law requires that formal rules of evidence be observed in an LS&T hearing.

The guarantor will present its case first and has the burden of proving by a preponderance of the evidence that its action is warranted. A record must be made of the hearing, with a copy made available to the entity. Any other parties requesting a copy of the transcript must pay the cost of reproducing and delivering the transcript.

The decisions of the Hearing Officer will be based on findings of fact and conclusions of law. The Hearing Officer must base the findings of fact only on evidence considered at the hearing or stipulated to by the parties. The Hearing Officer must issue an initial written decision following the hearing's conclusion. The decision will be sent by certified mail (return receipt requested).
[§668.90(a)(1)(iii); §682.706(b)(3)(iii)]

If the decision upholds a limitation, suspension, or termination, the effective date of that action will be the 20th day following the date on which a copy of the decision is mailed to the entity or on the effective date indicated in the decision, whichever is later. The guarantor must formally notify the Department of any action taken.
[§682.410(c)(9)(i)]

12.2.D.
Action by the U.S. Department of Education

The Department is to complete a review of an action taken by the guarantor within 60 days after being notified, unless the entity waives its right to such a review. The Department's review of the proceedings is intended to ensure that the sanctions imposed are in accordance with the Act and applicable federal regulations. If the action is determined by the Department to be valid, the Department may notify all guarantors of the eligibility restriction imposed on the entity.
[§668.90(c)]

12.2.E.
Appealing a Final Determination

An entity may appeal the final determination made by an Official or Hearing Official. Such an appeal may be made to the Department within 30 days of the entity's receipt of the ruling. The appeal should include a written explanation of why the decision should be modified. Copies of the appeal request must be sent to all parties involved in the action.
[§668.90; §682.707]

Some guarantors permit an appeal of the Hearing Officer's decision to a designated guarantor official, usually the Chief Executive Officer, before appeal to the Department. Entities will be notified of this option, if available, through materials provided by the guarantor.

Limitation and termination cannot take effect during the appeal process unless it is determined that a delay in the effective date will adversely affect the FFELP, students, or borrowers.
[§682.707]

12.2.F.
Offsets, Reimbursements, and Refunds

If, as a result of the final decision in an LS&T proceeding, an entity is required to pay a financial liability to the Department, the guarantor, or other program participants, such participants may offset these liabilities against any benefits or claims due to the entity. Neither the Department nor the guarantor is required to provide additional notices or hearings to expedite the offset process.
[§668.95; §682.709]

12.3
Removal of Limitation

An entity may request removal of a limitation action no earlier than 12 months after the action begins. A written request must be sent to the guarantor and must reflect the measures that the entity has taken to correct problems that resulted in violations on which the original action was based. Upon receiving the request, the Official will review the request and either grant the request, deny the request, or grant the request subject to other limitations.

If the Official denies the request to remove the limitation, or responds to the request with other limitations, the entity may request and be granted the opportunity to show why the limitation should be removed in part or in full. This opportunity may include a meeting with the Hearing Officer if the entity requests it. Pending an appeal, the entity may continue FFELP participation to the extent that it is not restricted by the previously established limitation.
[§668.97; §682.710]

12.4
Reinstatement after Termination

An entity that has had its FFELP participation terminated may request a reinstatement of eligibility no earlier than the end of the 18th month after the effective date of the termination action. A written request must show that the entity has corrected the problems that resulted in the violations and that it meets all eligibility requirements. If a school that also functioned as a lender was terminated as both a participating school and lender, the school may not be reinstated as a lender until it is reinstated as a school and has participated satisfactorily as a school for a period of at least 12 months.

The Official must respond to a request for reinstatement within 60 days of receiving it. He or she may grant the request, deny the request, or grant the request subject to limitations. If the Official grants the reinstatement request subject to certain limitations, the entity may request a hearing and be granted an opportunity to show why the entity should be fully reinstated without limitation.
[§668.96; §668.97; §682.711]

A Interest Benefits and Special Allowance

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The U.S. Department of Education compensates lenders participating in the FFELP through a combination of interest benefits and special allowance payments:

- Interest benefits are paid to lenders on behalf of eligible borrowers with subsidized FFELP loans, when such loans are in qualifying statuses (see subsection A.1.B.). The subsidy status of a loan is determined at the time the loan is made.

- Special allowance payments are intended to bring a lender's earnings on eligible FFELP loans closer to market rates. Special allowance rates vary according to when the loan was disbursed, the period of enrollment for which it was intended, and, in some cases, the loan's status.

A lender requests payment of interest benefits and special allowance by submitting a Lender's Interest and Special Allowance Request and Report (ED Form 799) to the Department. In completing this form, the lender reports the current status and outstanding balance of each FFELP loan in its portfolio and pays fees due on newly originated FFELP loans. An ED Form 799 must be filed quarterly, within 90 days of the quarter end. See section A.3 for more information on ED Form 799.

Appendix A describes eligibility criteria for federal interest benefits and special allowance, and outlines the general procedures lenders must follow to receive these subsidies.

A.1
Federal Interest Benefits

By paying a lender federal interest benefits, the Department is paying the interest that accrues on a qualifying loan on behalf of the borrower. Interest benefits may be paid—subject to the criteria noted in the following subsections A.1.A. and A.1.B.—only on the following:

- Subsidized Stafford loans.

- Consolidation loans made from applications received on or after January 1, 1993, but before August 10, 1993, excluding any portions derived from underlying HEAL loans.

- Consolidation loans made from applications received on or after August 10, 1993, through November 12, 1997, inclusive, where all loans consolidated were subsidized Stafford loans.

- Consolidation loans made from applications received on or after November 13, 1997, for any portion of the Consolidation loan that paid a subsidized Federal Stafford loan or a subsidized Direct Stafford loan.

- Federally Insured Student Loans (FISL loans).
[HEA 438(b)(2); HEA 428C(b)(4)(C)]

For information on the criteria borrowers must meet to qualify for subsidized Stafford loans (on which interest benefits will be paid during certain periods), see subsection 5.7.I.

A.1.A.
Amount of Federal Interest Benefits

The Department will pay interest benefits on a loan at a rate equal to the interest rate at which the loan accrues. This actual interest rate may not exceed the applicable maximum interest rate specified in law for such a loan. Statutory maximum interest rates for qualifying loans vary widely according to several factors. Information on applicable statutory interest rates for Stafford loans is presented in subsection 6.1.D. in the table "Stafford Loan Interest Rates." Information on interest rates for Consolidation loans is provided in subsection 9.3.D.

Exception: For federal education loans disbursed on or after August 3, 1968, but before December 15, 1968, an interest benefit of 3% of the unpaid principal balance is paid annually during the repayment period of the loan. Interest benefits equal to the full 6% or 7% interest rate, as applicable, are paid only during periods of deferment.
[§682.300(d)]

A.1.B.
When Federal Interest Benefits Will Be Paid

Interest benefits are paid on subsidized Stafford loans and qualifying Consolidation loans when the loan is in an in-school, grace, deferment, or post-deferment grace status.

The borrower is responsible for paying the interest that accrues during all other periods.
[§682.300(b)(1)]

Beginning Date

For a subsidized Stafford loan, the earliest date on which the Department will begin paying interest benefits during the in-school period is based on when the loan was first disbursed, with respect to the first day of the enrollment period:

- If a loan is disbursed *after* the first day of the enrollment period, the lender may begin billing for interest benefits 3 days after the date of disbursement.

- If a loan is disbursed *on or before* the first day of the enrollment period, the lender must consider how the disbursement was made to determine when the loan qualifies for interest benefits:

  - If a loan is disbursed by individual borrower check, the lender may begin billing for interest benefits on the later of 10 days before the first day of the enrollment period or 3 days after the disbursement date of the check.

  - If a loan is first disbursed by master check or EFT, the lender may begin billing for interest benefits on the later of 3 days before the first day of the enrollment period or 3 days after the date of the disbursement.

For a subsidized Stafford loan subject to delayed disbursement requirements (a first-year, first-time undergraduate Stafford loan borrower attending a school subject to delayed delivery provisions), the lender may begin accruing interest 3 days after the date of the first disbursement. More information on delayed disbursement is included in subsections 5.8.D., 6.2.A., and 6.3.E.

The payment of interest benefits on a subsidized Stafford loan continues through the period during which the borrower is continuously enrolled at least half time in school and through the grace period. If a borrower qualifies for a deferment after entering repayment on the loan, the Department's obligation to pay interest benefits resumes on the later of the first day on which the borrower qualifies for the deferment or 6 months before the date on which the lender receives the borrower's deferment request and documentation of eligibility for the deferment.

For qualifying Consolidation loans, the lender may begin billing for interest benefits on the later of the first date that the borrower qualifies for a deferment or 6 months before the date on which the lender receives the borrower's request and documentation of eligibility for a deferment.

Ending Date

The Department's obligation to pay federal interest benefits on otherwise eligible subsidized Stafford loans and qualifying Consolidation loans ends on the earliest of the following dates, as applicable:

- The date the loan is fully repaid.

- The date the borrower defaults.

- The date the lender receives claim payment on the loan.

- The date the loan is discharged by a bankruptcy court.

- The date the lender determines that the borrower has died or become totally and permanently disabled.

- The date of disbursement for any portion of the loan for which a borrower is found to be ineligible (see section 7.12).

- The date the loan, or any portion of the loan, ceases to be guaranteed or loses its eligibility for reinsurance—regardless of whether the lender has filed a claim with the guarantor.

- The date of disbursement, if a loan is unconsummated. [§682.300(b)(2)]

For loans first disbursed on or after October 1, 1992, a lender may not bill for interest benefits on an unconsummated subsidized Stafford loan. A loan is considered unconsummated if it is disbursed, but the check is not cashed—or, in the case of funds disbursed by EFT or master check, the funds are not released to the borrower from the school's account—within 120 days of the date on which the check was cut or the EFT/master check funds were sent to the school. If a loan is unconsummated, the lender must discontinue its current billing on the loan and refund interest benefits that have already been paid. [§682.300(c)]

A.2
Special Allowance

A lender may receive special allowance payments on most FFELP loans. The Department pays special allowance on a loan for any quarter in which the applicable calculation for that type of loan yields a positive number.

Special allowance is not paid on the following:

- Unconsummated loans.
- Nonsubsidized Stafford loans first disbursed on or after October 1, 1981, for periods of enrollment beginning before October 1, 1992.
- Any portion of a Consolidation loan derived from an underlying HEAL loan.

The formulas used to calculate special allowance, which are exhibited on the following page, are based on the maximum applicable interest rates specified in law for each category of loan. If a lender charges a borrower an interest rate that is less than the statutory maximum rate applicable to that loan, the lender must report the loan at the statutory rate for special allowance purposes.

A variable-rate PLUS or SLS loan first disbursed before July 1, 1994, is eligible for special allowance only when the following criteria are met:

- The loan is accruing at the maximum interest rate specified in law for such a loan (also called the cap).
- The 91-day Treasury bill rate plus the applicable special allowance factor (3.25% or 3.1%) exceeds the maximum interest rate for the loan.
[§682.302(b)(2)]

A.2.A.
Special Allowance Rates

The amount of special allowance that is payable on an eligible loan is determined by multiplying the unpaid principal and capitalized interest on the loan by the applicable special allowance rate. Special allowance rates are calculated and published quarterly by the Department. The formulas used to calculate these rates are exhibited on the following page. The following factors are considered in the calculation of special allowance rates for a loan:

- For Stafford and PLUS loans first disbursed on or after July 1, 1998, the bond equivalent rate of securities with a comparable maturity as established by the Department.
- For Stafford and PLUS loans first disbursed prior to July 1, 1998, the average bond equivalent rate of the 91-day Treasury bills auctioned during the quarter (also called the T-bill rate).
- For all Consolidation loans, the average bond equivalent rate of the 91-day Treasury bills auctioned during the quarter (also called the T-bill rate).
- A factor prescribed by law for each category of loans. This factor is added to the appropriate securities' bond equivalent rate for the quarter.
- The applicable statutory interest rate for the loan. This rate is subtracted from the sum of the appropriate securities' bond equivalent rate and the applicable factor.

As of the publication deadline for the July 1998 update of the Common Manual, *the Department had yet to publish its determination concerning the securities that are the basis for the calculation of special allowance rates on Stafford and PLUS loans first disbursed on or after July 1, 1998.*

If a special allowance rate calculation results in a negative number, special allowance will not be paid for that loan type for that quarter.

The amount of each quarterly special allowance payment will vary according to the type of loan, the date the loan was disbursed, the enrollment period for which the loan was made, and, in some cases, the number of quarters for which the loan has been outstanding, or the loan's status.

A loan that is financed by proceeds of tax-exempt obligations and that is held by or on behalf of an authority is eligible for special allowance only if the loan meets the requirements of 34 CFR 682.800. If the loan that was made or acquired with the proceeds of a tax-exempt obligation is refinanced with the proceeds of a taxable obligation, the loan remains subject to the tax-exempt special allowance provisions if the authority retains legal interest in the loan. If the original tax-exempt obligation is retired or defeased or the lender does not retain legal interest in the loan, special allowance is paid based on the rules applicable to the new funding source (taxable or tax-exempt).
[§682.302(e); DCL 96-L-186/96-G-287, Q&A #30]

SPECIAL ALLOWANCE FORMULAS

FORMULA 1
(BOND EQUIVALENT RATE OF SECURITIES WITH A COMPARABLE MATURITY AS ESTABLISHED BY THE DEPARTMENT + 1.0% – APPLICABLE INTEREST RATE OF THE LOAN) ÷ 4

- Stafford loans first disbursed on or after July 1, 1998.
- PLUS loans first disbursed on or after July 1, 1998

FORMULA 2
(AVERAGE 91-DAY T-BILL RATE + 2.5% – APPLICABLE INTEREST RATE OF THE LOAN) ÷ 4

- Stafford loans first disbursed on or after July 1, 1995, but before July 1, 1998, when such loans are in periods of in-school, grace, or deferment (during all other periods, special allowance is calculated using **Formula 3** below).

FORMULA 3
(AVERAGE 91-DAY T-BILL RATE + 3.1% – APPLICABLE INTEREST RATE OF THE LOAN) ÷ 4

- Subsidized and unsubsidized Stafford loans first disbursed on or after July 1, 1995, but before July 1, 1998, except when such loans are in periods of in-school, grace, or deferment (in which case special allowance is calculated using **Formula 2** above).
- Subsidized Stafford loans first disbursed on or after October 1, 1992, but before July 1, 1995.
- Unsubsidized Stafford loans first disbursed on or after October 1, 1992, but before July 1, 1995, for periods of enrollment beginning on or after October 1, 1992.
- PLUS loans first disbursed at a variable rate on or after October 1, 1992, but before July 1, 1998.
- SLS loans first disbursed at a variable rate on or after October 1, 1992.
- Consolidation loans made on or after October 1, 1992.

FORMULA 4
(AVERAGE 91-DAY T-BILL RATE + 3.25% – APPLICABLE INTEREST RATE OF THE LOAN) ÷ 4

- Subsidized Stafford loans first disbursed on or after November 16, 1986, but before October 1, 1992.
- Unsubsidized Stafford loans first disbursed before October 1, 1992, for periods of enrollment beginning on or after October 1, 1992.
- Variable rate PLUS/SLS loans first disbursed before October 1, 1992.
- Fixed rate PLUS/SLS loans first disbursed on or after November 16, 1986, but before July 1, 1987.
- Subsidized Stafford loans and fixed-rate PLUS/SLS loans first disbursed on or after October 17, 1986, but before November 16, 1986, for periods of enrollment beginning on or after November 16, 1986.
- Consolidation loans made on or after November 16, 1986, but before October 1, 1992.

FORMULA 5
(AVERAGE 91-DAY T-BILL RATE + 3.5% – APPLICABLE INTEREST RATE OF THE LOAN) ÷ 4

- Subsidized Stafford loans and fixed-rate PLUS/SLS loans first disbursed on or after October 17, 1986, but before November 16, 1986, for periods of enrollment beginning before November 16, 1986.
- Subsidized Stafford loans and fixed-rate PLUS loans first disbursed on or after October 1, 1981, but before October 17, 1986.
- Consolidation loans made on or after October 1, 1986, but before November 16, 1986.

FORMULA 6
(AVERAGE 91-DAY T-BILL RATE + 3.5% – APPLICABLE INTEREST RATE OF THE LOAN)

This amount should be rounded up to the nearest $^1/_8$ of 1%*, and the result should be divided by 4.
*Decimal equivalents are: 0.125, 0.250, 0.375, 0.500, 0.625, 0.750, 0.875, or the next whole percent.

- Subsidized and Nonsubsidized Stafford loans, and fixed-rate PLUS loans, first disbursed before October 1, 1981.

EXAMPLES OF SPECIAL ALLOWANCE CALCULATIONS

EXAMPLE 1

A subsidized Stafford loan is first disbursed on or after July 1, 1994, but before July 1, 1995, and is currently accruing interest at 8.25%. Special allowance for this loan is calculated using Formula 3.

If the average 91-day T-bill bond equivalent rate for the preceding quarter is 5.79%, the quarterly special allowance rate for the loan is calculated as follows:

$$(5.79\% + 3.10\% - 8.25\%) \div 4 = 0.16\%$$

If the loan has a $3,000 balance, applying the above rate yields the following quarterly special allowance amount:

$$0.0016 \times \$3{,}000 = \$4.80$$

EXAMPLE 2

A Stafford loan is first disbursed to a borrower on or after October 1, 1992, but before July 1, 1994. The borrower has an outstanding loan that was first disbursed at a 9% interest rate on or after January 1, 1981, but before October 1, 1981. The new loan currently accrues interest at 8.92% because it has been converted to an annual variable interest rate as a result of excess interest provisions. Special allowance for the new loan is calculated using Formula 3 (special allowance for the previous loan is calculated using Formula 6).

If the quarterly average 91-day T-bill bond equivalent rate for the preceding quarter is 5.79%, the quarterly special allowance rate for the loan is calculated as follows:

$$(5.79\% + 3.10\% - 8.92\%) \div 4 = -0.0075\%$$

Because the special allowance rate calculation resulted in a negative 0.0075%, special allowance is not paid for this loan for this quarter.

A.2.B.
Termination of Special Allowance

The Department's obligation to pay special allowance for an eligible loan ends on the earliest of the following dates, as applicable:

- The date the loan is fully repaid.
- The date the lender receives a claim payment on the loan.
- The date the loan, or any portion of the loan, ceases to be guaranteed or loses its reinsurability—regardless of whether the lender has filed a claim with the guarantor.
- 30 days after the date the guarantor returns a claim solely due to inadequate documentation, unless the claim is resubmitted with all required documentation within 30 days.
- 60 days after the date the borrower defaulted on the loan, unless the lender has filed a claim and all required documentation with the guarantor before the 60th day.
- The date the lender receives a claim payment for the loan or the 90th day (plus a 5-day mail time allowance) after the date on which the lender files a claim with the guarantor, whichever is earlier. The lender may be required to readjust special allowance billing if it receives information from the guarantor specifying the date on which the guarantor received the claim. If such information is received, the lender must ensure that special allowance is not billed beyond the 90th day following the date the guarantor received the claim.
- The date of disbursement, for any portion of the loan for which a borrower is found to be ineligible and the borrower repays the special allowance to the lender (see section 7.12).
- The date the lender receives a returned, uncashed disbursement check for the loan.
- The date of disbursement (retroactive), if a loan is unconsummated.

For loans first disbursed on or after October 1, 1992, a lender may not bill for special allowance on an unconsummated loan. A loan is considered unconsummated if it is disbursed, but the check is not cashed—or, in the case of funds disbursed by EFT or master check, the funds are not released to the borrower from the school's account—within 120 days of the date on which the check was cut or the EFT/master check funds were sent to the school. If a loan is unconsummated, the lender must discontinue billing on the loan and must refund special allowance payments that have already been received.
[§682.302(d)(1)]

A.3
Interest and Special Allowance Billing

A lender requests payment of interest benefits and special allowance for eligible loans by billing the Department at the end of each calendar quarter. The lender does this by submitting a Lender's Interest and Special Allowance Request and Report (ED Form 799). The lender also must report the status and balance of each FFELP loan held and make any adjustments to submissions covering earlier quarters.

A lender is prohibited from billing for federal interest benefits and special allowance payments on loans that are not eligible for federal reinsurance coverage. It is the lender's responsibility to repay immediately all federal interest benefits and special allowance payments on a loan which is, or was, ineligible to receive payments (see subsections A.1.B. and A.2.B.). Any required refund should be made as an adjustment to the lender's next quarterly billing (ED Form 799). In some cases, the lender may regain the right to receive interest benefits and special allowance payments on a loan and may resume billing for periods following the date the guarantee on the loan is reinstated. This may occur if the lender loses a guarantee due to a timely claim filing violation or due diligence violations, but then successfully performs cure procedures.

> EXAMPLE
> A lender finds due diligence violations that cause a loan to lose its guarantee effective June 1. If the lender subsequently cures the loan effective August 15, the lender would be responsible for correcting special allowance billings so that no special allowance is billed from June 1 through August 14 (the day before the loan regained eligibility for special allowance). In this case, the lender loses special allowance earnings for 75 days.

A lender's records must provide clear audit trails supporting its interest and special allowance billings. If requested, the lender must verify that the information on the ED Form 799 conforms to the instructions outlined by the Department. Lenders may be assessed a financial penalty by the Department if a review of the lender's ED Form 799 shows that information on the form is either inaccurate or insufficiently documented.
[§682.414(a)(4)(ii)(K); *Self-Instructional Workbook for the ED Form 799*, March 1994 edition]

A.3.A.
ED Form 799 Submission

It is imperative that a lender submit a complete and accurate ED Form 799. Errors may cause delays in processing and payment authorization. A lender should verify that all information pertaining to its FFELP loan portfolio is both accurate and up-to-date before undertaking the quarterly report.

A lender must have the following information (which is routinely requested during audits) for each loan it lists on an ED Form 799:

- Loan type (subsidized or unsubsidized Stafford, PLUS, SLS, Consolidation, or FISL).
- Disbursement date(s).
- Applicable statutory interest rate.
- Actual interest rate (if less than the applicable statutory rate).
- Loan status (in-school, grace, repayment, authorized deferment, forbearance, delinquent, claim pending) and the dates on which the status began and/or ended.
- Beginning principal balance and adjustments (calculated by determining any differences between the beginning principal balances of loans, by type, since the last quarter).
- Details on any cancellations (effective during the current or prior quarters, but processed in the current quarter).
- Principal amounts of disbursements (gross amounts of disbursements before any deduction of guarantee or origination fees).
- Amount of repayments (all reductions or increases made to the outstanding balances of loans) and the dates on which those payments or payment reversals were received.
- Average daily principal balance (the sum of the principal amounts outstanding each day of the quarter, divided by the number of days in the quarter).
- Documentation of any purchase or sale (the date of the purchase or sale of the loan, the principal amount outstanding on that date, and the name of the institution to which the loan was sold or from which it was purchased).
- Information on Stafford or Consolidation loan subsidies (if any).
- Amount of capitalized interest, including the dates for which the interest was capitalized and the date(s) on which it was capitalized.
- Information on any loss of guarantee (if the guarantee was canceled during the quarter).
- Notations of any cures (if the guarantee was reinstated during the quarter).
- Documentation of purchased claims (if purchased by the guarantor as a claim during the quarter) and the date on which the lender received the claim payment.

A.3.B. General Instructions for Completing ED Form 799

A lender must prepare and submit an accurate and complete ED Form 799 to the Department for each quarter. The form must be submitted within 90 days of the quarter's end to be considered timely.

The Department will authorize the payment of any interest benefits or special allowance due within 30 days of receiving an accurate and complete ED Form 799. An ED Form 799 is not considered accurate and complete if any of the following criteria are met:

- The lender requests payments to which it is not entitled.
- The lender includes loans on the form that the Department has instructed the lender, in writing, not to include.
- The report does not contain all information required by the Department or contains conflicting information.
- The lender does not certify and/or submit the form in the manner prescribed by the Department.

If an incomplete form is submitted, it will be returned to the lender unprocessed.
[§682.305(b)(1) and (4); §682.305(b)(5)]

Completing ED Form 799

The Department sends to each participating lender a quarterly ED Form 799 containing preprinted lender identification information. The form is sent before the end of each calendar quarter (March 31, June 30, September 30, and December 31). If the form does not arrive by the end of the quarter, or arrives damaged, the lender should contact the Federal Student Aid Information Center at (800) 433-3243 for a replacement.

Each part of the ED Form 799 contains instructions on how to assemble and report the information needed for that section. The instructions for each part begin on the back of the preceding pages—except for the instructions for Part I, which begin on the back of the last page of the form.

The following general rules apply with respect to how numbers should be presented on the ED Form 799:

- Monetary amounts listed on the form—except those in Part III, Column F (Interest Amount)—should be rounded to the nearest whole dollar. Amounts should be rounded only when entering the information onto the form. All calculations should be made in dollars and cents.
- Percentage rates must be expressed as decimal numbers. Where required, the lender should report rates with as many as four places after the decimal point.

All report pages—including any continuation pages added by the lender—must be numbered sequentially. If the lender needs additional space to complete any part of the form, it should make a copy of that portion and use it as a continuation page.

A lender may submit a computer-generated report to the Department. The report must be printed on unlined 8½" X 11" paper and must follow the format of the ED Form 799 distributed by the Department. Each column and row must be properly labeled, and the lender identification number (LID) should appear at the top of each page. The instructions that appear on the ED Form 799 printed by the Department need not be duplicated on a computer-generated report. The lender also must ensure that the complete certification statement from Part I of the report is included on the printout. The lender is strongly encouraged to submit a facsimile of the computer report to the Department for approval before submitting the actual computer-generated report for payment.
[DCL 94-L-167]

A lender may contract with a servicer to prepare the form on its behalf. However, the lender remains responsible for all entries made on the ED Form 799 and may be liable for any information in the report that results in the receipt of an overpayment of benefits.
[§682.203(a)]

Submitting ED Form 799

Completed forms should be sent to the Processing Center at the address on the first page of the ED Form 799. Because the Processing Center uses a post office box number, the lender must send its forms via the U.S. Postal Service (commercial couriers such as Federal Express, Airborne, and United Parcel Service cannot make deliveries to post office boxes). If the lender wants to send its forms by overnight mail, it must use the Express Mail service provided by the U.S. Postal Service (in some cities, overnight delivery may not be available).

For More Information

Lenders may refer to the *Self-Instructional Workbook for the ED Form 799* and may contact the Department's appropriate Regional Office for further assistance in preparing the form. See appendix D of this manual for contact information.

A.3.C.
Summary of ED Form 799

The ED Form 799 is divided into six parts. Each part is described in this subsection. General instructions for completing the ED Form 799 are provided in the preceding subsection A.3.B.

Part I: Identification and Certification

In this part, the lender provides identifying information about itself. An official authorized by the lender to sign the form must endorse the certification statement of Part I in ink; name stamps are not acceptable.

Instructions for completing Part I, as well as general instructions for preparing the form, appear on the back of the last page of the ED Form 799.

Part II: Loan Origination and Lender Loan Fees

In this part, the lender reports the amount of funds disbursed during the quarter and the amount of loan origination and lender loan fees due to the Department on disbursements of FFELP loans.

Origination fees are intended to help the Department defray the cost of FFELP loan subsidies. Generally, the origination fee is paid by the borrower as a deduction from his or her loan proceeds. A lender may choose to pay origination fees on behalf of its Stafford loan borrowers. However, lenders are required to charge origination fees to PLUS loan borrowers.

The Department also charges to FFELP lenders a fee equal to 0.5% of the principal amount of each Stafford, PLUS, SLS, and Consolidation loan first disbursed on or after October 1, 1993. This lender fee may not be passed on to the borrower.
[HEA 438(d)]

The Department collects both origination and lender fees by offsetting them from the amount of interest benefits and special allowance payments due the lender for the quarter. If a loan that was first disbursed in a previous quarter is canceled or paid in full in the current quarter, and the lender is due a refund of fees paid, the lender may report the adjustment. Any fee refunds will be deducted from fees owed for the quarter.

If an originating lender sells or transfers a loan, the originating lender is liable for payment of the origination fee. The Department will not pay interest benefits or special allowance to the new holder of a loan—or pay reinsurance to the guarantor for a loan—until the origination fee is paid to the Department.

The instructions for completing Part II begin on the back of the first page of the ED Form 799.

Part III: Interest Benefits

In this part, the lender bills the Department for interest benefits due on eligible subsidized Stafford loans, qualifying Consolidation loans, and FISL loans—when such loans are in appropriate statuses (see section A.1). Instructions for Part III begin on the back of the preceding page of the ED Form 799.

Part IV: Special Allowance

In this part, the lender bills the Department for special allowance payments. The lender may receive special allowance on eligible FFELP loans (see section A.2). The lender must separate loans according to loan type, applicable interest rate, and special allowance category—and provide the sum of average daily balances for each loan within these groupings. The Department will calculate the amount of special allowance due to the lender.

The instructions for Part IV begin on the back of the preceding page of the ED Form 799.

Part V: Changes in Guaranteed Loan Principal for the Quarter

In this part, the lender reports any increases and decreases in principal amounts for FFELP loans held by the lender during the quarter. This information—together with the information reported in Part VI—is used by the Department to track the balances and relative statuses of each loan type. Part V also provides the lender and the Department a summary of the institution's loan portfolio, which can be used to verify the completeness and accuracy of the information reported on other parts of the form.

The instructions for Part V begin on the back of the preceding page of the ED Form 799.

Part VI: Guaranteed Loan Portfolio Analysis for End of Quarter

In this part, the lender reports the status of its FFELP loans at the end of the quarter. For Part VI, loans are categorized by applicable status: (1) loans for which the borrower is in school or in a grace period, (2) loans in authorized deferment, or (3) loans in repayment. For loans in repayment, the lender must indicate whether the loan is current or delinquent. If a loan is delinquent, the lender must specify the number of days delinquent or indicate that a claim is pending on the loan, as applicable.

The instructions for Part VI begin on the back of the preceding page of the ED Form 799.

A.3.D. Deactivation

A lender may be deactivated from the FFELP if it fails to submit an ED Form 799 for two consecutive quarters, or if it submits a form rejected due to errors or incomplete data and does not subsequently correct the form. A deactivated lender is not eligible for insurance on its loans, and the lender may not bill interest benefits or special allowance for the period during which it is deactivated.

The Department will notify a lender of a pending deactivation. If the lender wishes to continue its FFELP participation, it must notify both the Department and each appropriate guarantor of its intent and the actions it is taking to resolve the outstanding issues. The lender should forward this information within 60 days of the date it is notified of a pending deactivation.

A lender may forestall deactivation—or may have its eligibility to participate in the FFELP reinstated, if it has already been deactivated—by meeting one of the following requirements:

- The lender may pay all of its outstanding origination fees separately from an ED Form 799 submission.
- The lender may work with the Department to correct ED Form 799s and have them reprocessed, if reports were previously submitted but rejected due to erroneous or incomplete data.
- The lender may successfully submit all outstanding ED Form 799s, along with a letter certifying that all fees have been paid to the Department, if reports were not submitted for two or more consecutive quarters.

If a lender is reactivated, it may not retroactively bill interest benefits or special allowance for the period during which it was deactivated (see subsection 3.5.A.).
[DCL 94-L-170 and DCL 95-L-180]

A.4 Consistency Between ED Form 799 and NSLDS Data

The Department will use data from the National Student Loan Data System (NSLDS) to monitor the plausibility of data submitted on ED Form 799 reports. A lender should ensure that the FFELP loan data it includes on an ED Form 799 are consistent with the data it regularly reports to the guarantor.

Each guarantor updates the NSLDS on a monthly basis as it obtains new information from lenders on existing loans or on new loans that have been guaranteed. Information is sent on more than 80 separate data elements covering the complete life cycle of each FFELP loan. Included in this loan-level detail are all the data elements contained in the ED Form 799 report.

For more information on lender NSLDS reporting, see subsection 3.5.G. A lender also may refer to the NSLDS Lender Manifest Instructions for more information about lender-related data that must be reported.

B PLUS/SLS Refinancing

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The Higher Education Amendments of 1986 created three options for eligible borrowers to refinance their PLUS or SLS loans:

Option 1: Refinancing to secure a combined payment

Option 2: Refinancing to secure a variable interest rate

Option 3: Refinancing to discharge a previous loan

If a lender does not offer one or more of the refinancing options described in this chapter, it must identify for its eligible PLUS and SLS borrowers another lender that does (to the extent practicable).

▲ Lenders may contact individual guarantors for more information on alternative lenders. See section 1.5 for contact information.

B.1 Option 1: Refinancing to Secure a Combined Payment

At a borrower's request, the lender may combine into a single repayment schedule all of the borrower's PLUS loans—or all of a borrower's SLS loans—that are held by the lender and guaranteed by the same guarantor. Because deferment eligibility provisions for PLUS and SLS loans differ, the lender is prohibited from refinancing PLUS and SLS loans together to obtain a single repayment schedule.

Under this option, a new promissory note is not required and lenders may not charge borrowers an administrative fee.

The interest rate on the refinanced loan is the weighted average of the rates on the loans being combined. If a borrower wishes to combine both fixed and variable interest rate loans under a single repayment schedule, he or she must first refinance each fixed interest rate loan to secure a variable rate (see section B.2).

A 10-year maximum repayment period is provided for loans refinanced under Option 1. The repayment period for the refinanced loan begins on the repayment start date of the most recently disbursed loan that has been included under the combined repayment schedule.

The lender is strongly encouraged to disclose the following items at the time it notifies the borrower of his or her new repayment terms:

- The total combined principal balance of the refinanced loan.
- The monthly payment amount.
- The number of months in the repayment period.
- The new interest rate.

The lender may develop its own format (such as a letter or statement) for disclosing the preceding information.

The lender is not required to report loans refinanced under Option 1 to the guarantor.

The Department requires that special allowance for PLUS and SLS loans refinanced under Option 1 be billed at the interest rate of each underlying loan. As a result, loans should be reported on the lender's ED Form 799 as though no refinancing had occurred. PLUS and SLS loans refinanced under Option 1 are not considered new loans for purposes of special allowance reporting.
[§682.209(d)]

B.2 Option 2: Refinancing to Secure a Variable Interest Rate

At a borrower's request, the lender may refinance a fixed interest rate PLUS or SLS loan at a variable interest rate. The variable interest rate is determined annually and is effective from July 1 of one year through June 30 of the following year. The rate is equal to the bond equivalent rate of the 52-week Treasury bills auctioned at the final auction held before June 1 of each year, plus 3.25%—not to exceed 12%.

Refinancing under Option 2 does not extend the 10-year maximum repayment period for the loan being refinanced.

If a borrower also has variable interest rate PLUS or SLS loans, these loans may be combined under Option 1 into a single repayment schedule with a loan refinanced to secure a variable rate under Option 2. The 10-year repayment period for the total combined loan refinanced under Option 1 is calculated from the repayment start date of the most recently disbursed loan that is included.
[§682.209(e)(2)(ii)]

A borrower is not charged a guarantee fee for refinancing loans under Option 2. However, the lender may opt to charge a borrower whose PLUS or SLS loans are refinanced under Option 2 an administrative fee of up to $100. Only one such administrative fee may be charged on each refinancing transaction. If the lender charges an administrative fee for refinancing under Option 2, the lender must collect the fee from the borrower up front—the lender cannot capitalize the fee. Also, when advising the borrower of the advantages of refinancing his or her loans under Option 2, the lender must subtract this fee from any cost savings the borrower may realize during the repayment period.

A new promissory note and disclosure statement must be generated for each loan refinanced under Option 2. To assist lenders in meeting this requirement, the guarantor may provide refinancing documents. A lender may use these forms or develop its own, provided the lender's form contains all terms and conditions included on the guarantor's refinancing documents. Lenders need not obtain a new promissory note each year.

▲ Lenders may contact individual guarantors for more information on refinancing documents. See section 1.5 for contact information.

The lender is strongly encouraged to disclose to the borrower, each year during the repayment period, the annual variable interest rate and any changes in repayment terms that result from interest rate changes. The lender may develop its own format for disclosing this information to the borrower. If a borrower's repayment terms must be adjusted due to a change in the variable interest rate of a PLUS or SLS loan, lenders generally have two options:

1. The lender may adjust the borrower's payment amount and leave the total number of payments in the repayment period unchanged.

2. The lender may lengthen or shorten the borrower's repayment period by adjusting the total number of payments and leave the payment amount unchanged.

A lender is not permitted to extend the 10-year repayment period solely to avoid increasing the borrower's installment amount. An increase in the variable interest rate of a PLUS or SLS loan may result in the loan not being fully repaid within the maximum 10-year repayment period (see section B.4).

The lender must report the new interest rate on loans refinanced under Option 2 to the guarantor. Loans refinanced under Option 2 must not be reported as paid in full. For more information on reporting loan changes, see section 3.5.
[§682.209(e) and (g)]

B.3
Option 3: Refinancing to Discharge a Previous Loan

If a lender holding a fixed-rate PLUS or SLS loan(s) denies the borrower the option of refinancing his or her eligible PLUS or SLS loan(s) to secure a variable rate, the borrower may apply to another lender for a new loan to discharge the loan held by the original lender. Under this option, the lender making the new loan must send the proceeds of the new loan to the current loan holder to retire the borrower's original debt.

A loan refinanced under Option 3 will be made at the variable interest rate applicable to loans refinanced under Option 2 (see section B.2).

The lender may not charge the borrower an administrative fee for refinancing a loan under Option 3. However, the guarantor may charge the borrower a guarantee fee for each new PLUS or SLS loan guaranteed under Option 3. The borrower may finance a guarantee fee by including it in the amount refinanced. If the borrower chooses to finance a fee, the lender must include the fee in the new loan balance reported to the guarantor.

▲ Lenders may contact individual guarantors for more information on the applicability of guarantee fees for loans refinanced under Option 3. See section 1.5 for contact information.

A form may be available from the guarantor to assist lenders in refinancing PLUS or SLS loans under Option 3.

▲ Lenders may contact individual guarantors for more information on the availability of refinancing forms. See section 1.5 for contact information.

Before refinancing a fixed-rate loan under Option 3, the refinancing lender must obtain a written statement from the holder of the loan certifying that:

- The holder refuses to refinance the fixed-rate loan.
- The fixed-rate loan is eligible for insurance or reinsurance.

The holder of the fixed-rate loan must provide the certification within 10 business days of receiving the refinancing lender's written request for the certification. If the holder is unable to provide this certification, it must provide the refinancing lender and guarantor on the loan with a written explanation of the reasons for its inability to provide the certification. The refinancing lender may rely in good faith on the certification provided by the holder of the fixed-rate loan.
[§682.209(g)(2)]

After any applicable refinancing form has been completed and signed by both the borrower and the refinancing lender, the form is sent to the guarantor. Upon approval, the guarantor will send the refinancing lender a guarantee disclosure. Upon receiving this disclosure from the guarantor, the refinancing lender must pay off the borrower's outstanding PLUS or SLS loan(s) and begin its routine servicing of the borrower's new refinanced loan.

The guarantor will bill the refinancing lender for any guarantee fee on a loan refinanced under Option 3 on the lender's monthly fee billing invoice.

Deferment of Refinanced Loan

For purposes of deferment eligibility, a loan refinanced under Option 3 is considered one of the following:

- A PLUS loan, if any of the loans refinanced is a PLUS loan made to a parent.
- An SLS loan, if the refinanced loan does not include a PLUS loan made to a parent.
- A loan to a "new borrower," if all the loans refinanced were first disbursed on or after July 1, 1987, for a period of enrollment beginning on or after that date.
[§682.209(f)(5)]

Discharging the Original Loan

Within 5 business days of receiving proceeds from a refinancing lender, the holder of a loan must apply the proceeds to discharge the borrower's obligation on the fixed interest rate PLUS or SLS loan being refinanced. The holder also must provide the refinancing lender with either a copy of the borrower's original promissory note evidencing the fixed-rate loan or a written certification that the borrower's obligation has been discharged.
[§682.209(f)(3)]

The holder of a loan being refinanced also must promptly report to the guarantor of the loan that the discharged loan was paid in full as a result of refinancing. For more information on lender reporting, see section 3.5.

B.4
Repayment Options on Refinanced Loans

A lender is strongly encouraged to offer the choice of standard, graduated, or income-sensitive repayment schedules for any borrower who refinances loans under the options described in this appendix. For more information on repayment options, see subsections 7.6.C. and 7.6.D.

A lender should note that a borrower may be eligible for a 3-year mandatory administrative forbearance in cases where an increase in a variable interest rate causes a borrower to exceed the 10-year repayment period. For more information on mandatory administrative forbearance, see subsection 7.11.D.

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C Guarantor-Specific Information

C Guarantor-Specific Information

C Guarantor-Specific Information

The following guarantors have no guarantor-specific exceptions to policies outlined in the *Common Manual*:

American Student Assistance
Colorado Student Loan Program (CSLP)
Education Assistance Corporation (EAC) (South Dakota)
Finance Authority of Maine (FAME)
Georgia Higher Education Assistance Corporation
Great Lakes Higher Education Guaranty Corporation
Kentucky Higher Education Assistance Authority (KHEAA)
Michigan Higher Education Assistance Authority
Montana Guaranteed Student Loan Program (MGSLP)
New Hampshire Higher Education Assistance Foundation (NHHEAF)
North Carolina State Education Assistance Authority
NSLP, Inc.
Oregon State Scholarship Commission (OSSC)
Rhode Island Higher Education Assistance Authority (RIHEAA)
South Carolina Student Loan Corporation
Student Loans of North Dakota (SLND)
Texas Guaranteed Student Loan Corporation (TG)
Utah Higher Education Assistance Authority (UHEAA)
Vermont Student Assistance Corporation (VSAC)

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California Student Aid Commission (CSAC)/ EdFund

8.2.A. Default Claims

If a lender receives a borrower payment after filing a default claim, but before the claim has been purchased, the lender must determine whether the claim should be recalled. If not recalled, the lender must apply the payment(s) to the borrower's loan balance. The lender must adjust the Common Claim Form and fax or mail a copy of the corrected Common Claim Form, along with a payment history reflecting the payment(s) received after the claim was filed, to CSAC's Claims Office.

CCI 8.3.B. Claim File Documentation

In addition to the claim file documentation listed in subsection CCI 8.3.B., the California Student Aid Commission/EdFund requires that lenders include complete copies of the collection and payment histories in each claim file.

Connecticut Student Loan Foundation (CSLF)

9.2 Borrower Eligibility

CSLF will guarantee a Consolidation loan for a borrower only if one of the underlying loans to be consolidated is guaranteed by CSLF.

Consolidating Defaulted Loans

CSLF will guarantee a Consolidation loan that includes a defaulted loan only if the borrower makes satisfactory repayment arrangements with the holder of the defaulted loan before applying for the Consolidation loan. Satisfactory repayment arrangements are defined as three consecutive, on time, voluntary, monthly payments. CSLF requires that the payments:

1) satisfy interest accruing on each defaulted loan to be consolidated for which CSLF is the guarantor

2) will not result in negative amortization on the borrowers loans.

Educational Credit Management Corporation (ECMC)

6.2.C. Disbursement of Loan Proceeds by Individual Check

For students attending school in the U.S., ECMC requires that Stafford loan checks be made copayable to the student and the school.

8.3.C. Missing Claim File Documentation

ECMC will place a claim in a pending status for three business days while awaiting a faxed copy (or original, if required) of missing documentation. The claim will be rejected and returned to the lender/servicer if the missing documentation is not received by ECMC within this time. ECMC will issue special instructions to the lender/servicer if this three-day period extends beyond the latest allowable claim payment date.

8.5 Claim Recalls

All claim recall requests must be in writing, and may be faxed or mailed to ECMC.

8.8.C. Penalties for Due Diligence Violations and Gaps

ECMC requires all skip tracing to be completed by the date of default. Failure to complete skip tracing will result in the loss of guarantee on the loan.

If the lender fails to establish a first payment due date within the time frames specified in subsection 7.4.B., the lender will incur a violation. If the actual first due date is 1-35 days after the latest allowable due date, one due diligence violation will be assessed. If the actual first due date is 36-45 days after the latest allowable due date, a second due diligence violation will be assessed. If the actual first due date is 46 days or greater after the latest allowable due date, the loan loses its guarantee and must be cured.

8.8.I. Missing Payment History

ECMC will accept for claim a cured account where the current holder cannot provide a complete prior holder payment history. In order to have such a claim paid, the current holder must provide the following in the claim file:
1. a copy of the sale manifest showing the account balance at the time the loan was purchased by the current holder, or an Indemnification Agreement noting the purchase balance;
2. a complete payment history from the purchase date and balance forward; and
3. a repayment agreement signed by the borrower acknowledging the balance owed to the current holder.

Florida Department of Education, Office of Student Financial Assistance (OSFA)

8.3.B.
Claim File Documentation

The preparation of the order of documents in the claim file is listed in OSFA's Instruction Manual to the FGLP Form 7, Lender Application for Claim Payment.

Indemnification Agreement. If required claim file documents are missing, the lender must have signed an "Indemnification Agreement" and must prepare substitute documentation as defined in the agreement.

Assignment of Promissory Note. Payment of a claim shall be contingent upon receipt from the lender of an assignment to the State of Florida of all right, title, and interest in the note. The assignment shall bear effective words of "Pay to the order of the State of Florida, Department of Education without recourse on us or any of us. (name of lender), By (signature of authorized officer), (name and title of authorized officer), (date)." The lender shall not share in any amounts collected from the borrower by the Department on a loan assigned to the Department.

Documents. Original documents are required unless an indemnification agreement has been signed to permit substitute documentation. OSFA's Instruction manual to the FGLP Form 7, Lender Application for Claim Payment, is the reference for guidance on required documentation.

8.6.D.
Requests for Increase in Claim Payment

OSFA has established a $50.00 minimum for increase in claim payment requests.

Illinois Student Assistance Commission (ISAC)

3.3.A.
Agreement to Guarantee Loans

One-Lender Rule

In accordance with ISAC Administrative Rules, all of a borrower's outstanding ISAC-guaranteed loans must be made by the same lender provided the lender agrees to make all types of FFELP loans to the borrower for which he/she is eligible. Once the borrower selects a lender for his/her initial ISAC-guaranteed loan, all subsequent loans for that borrower will be guaranteed to the original lender unless:

- the borrower's outstanding loans have been sold to a subsequent lender, any new ISAC loans will be guaranteed to the new lender;
- the lender is declared insolvent, becomes unapproved by ISAC, or has withdrawn from participation in FFELP, the borrower must select a new lender for subsequent loans;
- ISAC is informed that the borrower has provided authorization to have subsequent loans issued by a different lender, ISAC will honor the borrower's request; or
- the borrower's outstanding loan(s) was made by a lender of last resort, the borrower must select a new lender for subsequent loans.

In order to receive a guarantee from ISAC, an educational lender must agree to ISAC's one-lender policy that applies to educational lenders. Also, the lender must be an educational institution at which the borrower is currently enrolled and the borrower must have made a good faith effort to obtain a loan from a commercial lender pursuant to federal regulations (§682.601).

Note: For more specific information regarding ISAC's one-lender requirement, please see ISAC Administrative Rules which are provided on the NCHELP InfoPak CD-ROM.

One-Holder Rule

In accordance with ISAC Administrative Rules, all of a borrower's outstanding ISAC-guaranteed loans (Federal Stafford, SLS, and PLUS) must be sold by a lender to the same holder. Any subsequent ISAC-guaranteed loan for the borrower must also be sold to the same holder no later than 90 days from the borrower's last date of attendance or 180 days following the last disbursement, whichever occurs later. If the lender is untimely notified of the borrower's change in enrollment status, the subsequent loan must be sold no later than 45 days after the lender became aware of the change in enrollment or in the case of a late disbursement, the subsequent loan must be sold within 45 days following disbursement. Failure to sell the subsequent loan by the applicable deadline shall result in the loss of guarantee. However, a guarantee may be reinstated if the lender initiates the sale of the loan to the appropriate holder within 90 days of identifying the violation.

ISAC's one-holder policy shall not apply if:

- the holder is declared insolvent, has terminated its agreement with ISAC, or has withdrawn from participation in FFELP; or

- the borrower has provided authorization to have subsequent loans sold to a different holder.

Note: For more information regarding ISAC's one-holder requirement, please see ISAC Administrative Rules which are provided on the NCHELP InfoPak CD-ROM.

5.2.A.
Borrower and Student Eligibility Requirements

According to ISAC Administrative Rules, no applicant shall receive ISAC-administered assistance if the applicant owes a refund for any ISAC-administered gift assistance.

6.2.C.
Disbursement of Loan Proceeds by Individual Check

ISAC allows schools the ability to require all Federal Stafford loan checks be made co-payable to the borrower and the institution.

8.3.B.
Claim File Documentation

ISAC will accept indemnifications on an exception basis when:

- true and exact copies are not provided with a claim (a copy of the check or proof of disbursement must also be provided); or

- true and exact copies of any pre-common application/ promissory note are submitted with a claim.

ISAC does not accept blanket indemnifications.

9.2
Borrower Eligibility

ISAC will guarantee Federal Consolidation Loans based on the following policy.

- At least one of the loans being consolidated must be an ISAC-guaranteed loan. If all underlying loans to be included in the consolidation are Federal Direct Loans, the borrower must either be a resident of Illinois, attending an Illinois institution, or have received the Direct Loan(s) through an Illinois school.

- A defaulted loan(s) may be included for consolidation through ISAC **only** if the underlying defaulted loan(s) is currently held by ISAC and the total balance of **all** loans included at the time of consolidation is $5,000 or greater. Borrowers may **not** consolidate a defaulted Direct Loan or a defaulted loan held by another guarantor through ISAC.

- Other than a Federal Direct Loan, a borrower may not include for consolidation any loan currently held by the U.S. Department of Education (ED) (i.e., subrogated loan).

Iowa College Student Aid Commission (ICSAC)

8.1.E.
Comaker and Endorser Due Diligence Schedules and Activities

As an important default reduction initiative, the Iowa College Student Aid Commission (ICSAC) encouraged the use of cosigners (referred to here as endorsers) for loans made prior to the required use of common applications (which do not accommodate the use of endorsers). In an effort to honor the intentions of originating lenders who obtained endorsers as a default reduction measure, ICSAC allows only *originating* lenders to release endorsers. Endorsers may not be released by subsequent holders of loans without written permission from the originating lenders. Originating lenders should follow the procedures described in subsection 8.1.E. when circumstances arise that justify the release of endorsers.

8.3.B.
Claim File Documentation

ICSAC requires that lenders submitting "true and exact" copies of lost or destroyed application/promissory notes provide indemnification agreements which indemnify ICSAC against loss due solely to missing original documents. While ICSAC prefers that an indemnification agreement be attached to each "true and exact" copy, lenders may provide blanket indemnification agreements covering all application/promissory notes transferred to ICSAC's possession.

9.2
Borrower Eligibility

Prior to making a federal Consolidation Loan under ICSAC's guarantee, a lender shall ascertain that at least one of the underlying loans to be consolidated was made under Parts B or D of the Higher Education Act of 1965, as amended (the Act) and at least one of the following criteria is met:

- For a loan consolidation which includes an underlying loan or loans made under Part B of the Act, at least one of the underlying loans must be guaranteed by ICSAC;
- For a loan consolidation which does not include a loan or loans made under Part B of the Act, but includes a loan or loans made under Part D of the Act, a lender must ascertain that the borrower:
    - is a resident of the state of Iowa at the time of submitting the application for loan consolidation; or
    - was a resident of the state of Iowa at the time of submitting the application for the Part D loan; or
    - received at least one of the underlying Part D loans while attending an Iowa institution.

ICSAC will not guarantee a Consolidation loan made jointly to a married couple.

Louisiana Student Financial Assistance Commission (LASFAC)
Louisiana Office of Student Financial Assistance (LOSFA)

9.2
Borrower Eligibility

LOSFA will guarantee a Consolidation loan for an otherwise eligible borrower:

- who is a Louisiana resident or attending a Louisiana school.
- who certifies that he or she has been unable to obtain a Consolidation loan with income sensitive repayment terms satisfactory to him or her from the holders of the borrower's outstanding loans.

LOSFA will not guarantee a Consolidation loan made jointly to a married couple.

Consolidating Defaulted Loans
LOSFA will guarantee a Consolidation loan that includes a defaulted loan only if the borrower makes satisfactory repayment arrangements with the loan holder before applying for the Consolidation loan. For these purposes, satisfactory repayment arrangements are defined as three consecutive, on-time, voluntary, monthly payments, which satisfy the interest accruing on each defaulted loan and do not result in negative amortization.

If a borrower with a defaulted loan does not include that defaulted loan in the consolidation, the borrower must make six consecutive, on-time, voluntary, reasonable and affordable full monthly payments to the holder of the defaulted loan to regain eligibility for Title IV financial aid programs. Such a borrower is not eligible for a Federal Consolidation loan until his or her Title IV eligibility has been reinstated in this way.

Missouri Student Loan Program

6.2.G.
Reissuing a Loan Disbursement

When a school determines that a loan disbursement needs to be reissued, the school must request the reissue no later than 120 days after the original disbursement date.

7.3
Verification of Enrollment

The MSLP only reports an enrollment status update received from the borrower when the school verifies the update.

7.3.A.
Lender Processing of Enrollment Changes
7.3.B.
Lender Reporting of Enrollment Changes

The MSLP requires a lender to verify in written or electronic format any report it receives of a new or changed out-of-school date received from a source other than the school. A lender may accept a written or electronic report of a new or changed out-of-school date from a source other than the school only when the school is clearly identified as the contributor of the information and a school certification date is provided.

7.8.E.
School Refunds

The MSLP requires the lender to apply a timely school refund to the outstanding principal balance of the loan, with an effective date of the lender's receipt of refunded loan proceeds.

The lender is required to apply a school refund to the original principal balance with an effective date of the original disbursement when it is determined that the school made an untimely refund. Any accrued interest must be recalculated based on the new reduced principal balance. The lender may bill the school for any ineligible accrued interest and special allowance.

7.12.A.
Ineligibility Based on Borrower Error
8.1.M.
Ineligible Borrower Due Diligence

Upon determination that a borrower is responsible for his/her ineligibility for all or a portion of a loan, the lender must mail a final demand letter to the borrower within 30 days.

8.2.G. (CCI)
Closed School Loan Discharge
8.2.H. (CCI)
False Certification Loan Discharge

In addition to the documentation requirements of these subsections, the MSLP will require that a detailed payment history be submitted with a closed school or false certification claim. If the lender is aware of having received payments from a third-party source, the lender should clearly note this information and the actual amounts received.

8.3.B.
Claim File Documentation

Claims submitted for payment must contain applicable deferment forms or forbearance agreements governing the deferment or forbearance periods.

8.3.B. (CCI)
Claim File Documentation

In addition to claim file documentation required by this subsection for default, ineligible borrower, death, disability and bankruptcy claims, the MSLP will require the lender to submit a complete and legible record of collection history over the life of the loan or from repurchase forward. This collection history must include repayment disclosure information relative to the initial conversion and each subsequent reconversion to repayment, a complete and detailed payment history, deferment and forbearance documentation (including copies of applicable deferment forms and/or forbearance agreements covering deferment and forbearance periods), and due diligence activities performed by the lender.

8.10 (CCI)
Payment History for Rehabilitated Loans

In addition to dates and amounts of payments made while the loan was in default status, the MSLP will provide the lender that purchases a rehabilitated loan with the detailed payment history the MSLP requires of a lender that submits a request for claim payment.

9.2
Borrower Eligibility

The MSLP requires that all defaulted loans to be included in the Consolidation Loan be held by the MSLP. The consolidating lender must contact the MSLP directly on a case-by-case basis upon application by a borrower who desires to include one or more defaulted Direct Loans in a Consolidation Loan guaranteed by the MSLP.

9.4
Consolidation Disbursement

The consolidating lender must disburse a Consolidation Loan within 60 days of receiving completed verification certificates from the holder(s) of all loans to be consolidated.

The MSLP requires that discrepancies be resolved within 90 days of notification to the consolidating lender that proceeds were not sufficient to pay the loan in full.

New Jersey Higher Education Student Assistance Authority

6.2.C.
Disbursement of Loan Funds by Individual Check

If the lender issues an individual Stafford Loan check, the New Jersey Higher Education Student Assistance Authority requires the check to be made copayable to the student and the school—unless the school is located in a foreign country, in which case the check is made payable to the student only. Also, if the student is enrolled in a study-abroad program approved for credit by the home school and if the student requests, the loan check may be made payable to the student only. The lender should also indicate the student's social security number, enrollment period for the loan, and the type of loan on each individual loan check.

8.3.B.
Claim File Documentation

The New Jersey Higher Education Student Assistance Authority requires submission of indemnification agreements in situations involving certified copies of promissory notes.

8.6.D.
Requests for Increase in Claim Payment

A lender must submit a request for increase in claim payment within 60 days of receiving the claim payment. The New Jersey Higher Education Student Assistance Authority has established a $50 minimum for claim payment increase requests (supplemental claims).

8.8.E.
Penalties for Timely Filing Violations

Failure to resubmit a bankruptcy claim by the 30th day will result in a timely filing violation.

8.2.G. (CCI)
Closed School Loan Discharge
8.2.H. (CCI)
False Certification Loan Discharge

In addition to the documentation requirements of this section, the New Jersey Higher Education Student Assistance Authority requires the lender to submit a complete and accurate payment history, regardless of the lender's claim review status.

8.3.B. (CCI)
Claim File Documentation

The New Jersey Higher Education Student Assistance Authority requires submission of indemnification agreements in situations involving certified copies of promissory notes. If the original promissory note is unavailable, a copy of the note certified as true and exact must be submitted, accompanied by a notarized affidavit of lost note, and indemnification agreement. If the lender is unable to provide a copy of the note, copies of the negotiated disbursement checks must be submitted along with the notarized affidavit of lost note and indemnification agreement. If the lender cannot produce copies of the negotiated disbursement checks, other evidence of disbursement may be submitted, and will be evaluated on a case by case basis.

In addition to claim file documentation required by this subsection for default, ineligible borrower, death, disability and bankruptcy claims, the New Jersey Higher Education Student Assistance Authority requires the lender to submit a complete and accurate payment history, regardless of the lender's claim review status.

The New Jersey Higher Education Student Assistance Authority also reserves the right to request additional supporting claim documentation, e.g. forbearance and deferment forms, and detailed collection histories, as deemed appropriate.

New Mexico Student Loan Guarantee Corporation (NMSLGC)

8.3.B.
Claim File Documentation

New Mexico requires copies of actual deferment or forbearance forms in claim files.

New York State Higher Education Services Corporation (HESC)

3.7.C.
How the LLR Program Works

HESC will begin the LLR application process by contacting the student within 60 days.

5.2.A.
Borrower and Student Eligibility Requirements

If a student is attending a school located outside of New York State, the borrower must be a resident for at least 12 months immediately prior to the beginning of the period for which the loan is intended, unless the school or lender has executed a cooperative agreement with HESC to guarantee loans for students who are not residents.

6.1.B.
Guarantor Processing of the Application and Promissory Note

An undergraduate borrower whose loans are guaranteed by HESC must obtain all of his/her loans from the same lender. This is referred to as the One Lender Rule. The lender that makes the borrower's first loan is the lender of record. The borrower must request all subsequent loans from the lender of record unless (1) the lender sells all of the borrower's loans to the Student Loan Marketing Association (SLMA) or any non-originating lender, or (2) an exception to the One Lender Rule has been authorized. In these cases, the borrower is free to choose a new lender for subsequent loans.

Graduate and Professional Students may obtain FFEL program loan funds from a lender different from the lender used for their undergraduate or previous graduate/ professional borrowing. This allows graduate students to borrow from their school, if the school is an approved FFEL program lender.

The following are authorized exceptions to the One-Lender Rule:

- the lender does not lend to borrowers attending a particular school;
- the borrower objects to the capitalization policy followed by his/her lender of record;
- the borrower has experienced loan servicing problems with the lender of record or that lender's servicing agent;
- the borrower is a graduate and/or professional student.

6.2.C.
Disbursement of Loan Proceeds by Individual Check

For students attending schools in the U.S., HESC requires that Stafford loan checks be made copayable to the student and the school.

8.1.D.
Due Diligence Schedules and Activities

Collection Efforts after the Final Demand

HESC will not consider letters sent after the final demand letter in determining lender compliance with the required collection letter due diligence activities. However, HESC will consider telephone calls initiated through the 180th day of delinquency in editing required telephone due diligence activities.

8.7
Mandatory Repurchase

Under the following specific circumstances, HESC requires a lender to repurchase loans after a default claim has been paid to the lender by HESC:

- An error made by HESC, the school or lender which resulted in the borrower's loan(s) being in default (i.e., error in refund processing, deferment processing delays, etc.); or
- The lender requested that HESC avert a claim which was filed or purchased by HESC prior to HESC processing the avert transaction.

Northwest Education Loan Association (NELA)

9.2
Borrower Eligibility

NELA will not guarantee a Consolidation loan made jointly to a married couple.

Oklahoma Guaranteed Student Loan Program (OGSLP)

9.2
Borrower Eligibility

OGSLP will not guarantee a Consolidation loan made jointly to a married couple.

Pennsylvania Higher Education Assistance Agency (PHEAA)

6.1.B.
Guarantee of the Loan

A borrower whose loans are guaranteed by PHEAA must obtain all of his/her loans from the same lender. This is referred to as the One Lender Rule. The lender that makes the borrower's first loan is the lender of record. All of a borrower's loans must be obtained from the same lender unless an exception to the One Lender Rule has been authorized. In these cases, the borrower is free to choose a different lender for subsequent loans.

The following are exceptions to the One Lender Rule that will be authorized:

- the lender does not lend to borrowers attending a particular school;
- the lender does not offer a particular type of loan for which the borrower is eligible;
- the borrower has experienced loan servicing problems with the lender of record or the lender's servicing agent.

8.1.J.
Preclaim Assistance

PHEAA requires that a lender file or refile an acceptable request for preclaim assistance no later than the 105th day of delinquency in order to avoid an interest penalty. PHEAA does not have a refiling period for a rejected preclaim beyond the initial preclaim request period.

8.6.D.
Requests for Increase in Claim Payment

PHEAA has established a $50.00 minimum for claim payment increase requests (supplemental claims).

9.2
Borrower Eligibility

PHEAA will guarantee a Consolidation loan that includes a defaulted loan only if the borrower makes satisfactory repayment arrangements with the loan holder before applying for the Consolidation loan. For these purposes, satisfactory repayment arrangements are defined as three consecutive, on-time, voluntary, monthly payments. PHEAA requires that the payments satisfy interest accruing on each defaulted loan to be consolidated and result in no negative amortization on the borrower's loans.

Student Loan Guarantee Foundation of Arkansas (SLGFA)

9.2
Borrower Eligibility

SLGFA will not guarantee a Consolidation loan made jointly to a married couple.

Tennessee Student Assistance Corporation (TSAC)

8.3.B.
Claim File Documentation

Effective July 1, 1999, TSAC will only require deferment and forbearance documentation for Bankruptcy claims.

8.6.D.
Requests for Increase in Claim Payment

TSAC requires the lender to submit a request for an increase in claim payment within 60 days of receiving the claim payment. TSAC has established a $50.00 minimum for a claim payment increase.

United Student Aid Funds, Inc. (USA Funds)

5.2.E. Prior Overpayment, Default, Cancellation, or Write-Off

See exception noted for section 9.2.

*6.1.B. Guarantor Processing of the Application and Promissory Note

USA Funds will guarantee a loan for a borrower attending a foreign medical school that has been terminated, or that is subject to emergency action or termination proceedings, only under either of the following circumstances:

- USA Funds guaranteed a previous loan for that borrower for attendance at that school. Additional loans will be processed and guaranteed for such borrowers only during the academic year in which the emergency action or termination proceedings were initiated and the academic year immediately following it. Borrowers will not be eligible for loans at the terminated medical schools in subsequent academic years.

- The student is enrolled in a program other than the medical program that has been terminated or that is under emergency action or termination proceedings, and the school submits a statement to that effect, on its letterhead, to the Compliance Operations Department of USA Group Guarantee Services. A loan may be obtained in this case regardless of whether the borrower had previously obtained a loan for attendance at that school.

If a loan that has already been guaranteed is only partially disbursed on the effective date of the emergency action or termination, the remaining disbursements may be made after the initiation of the emergency action or termination.

6.2.G. Reissuing a Loan Disbursement

The 90-day reissue time frames specified in the *Common Manual* are not enforced for reissues on loans guaranteed by USA Funds.

6.2.I. Effect of Bankruptcy on Loan Disbursement

For loans guaranteed by USA Funds, a lender must cancel any remaining unmade disbursements upon learning that the borrower has initiated a bankruptcy action that would result in the lender being required to file a claim with the guarantor. Further, the lender is required to notify the school, the borrower, and USA Funds of the cancellation. The lender must also notify the borrower that he or she may reapply for any remaining eligibility by submitting a new application. Unlike *Common Manual* policy, USA Funds does not recommend that the lender contact the school to request any funds that are undelivered at the time the lender is notified of the borrower's bankruptcy.

Disbursements made on or after the date a bankruptcy claim is filed—or made more than 30 days after the date the lender receives notice of the bankruptcy action, if that date is earlier—will not be insured unless the lender obtains documentation from the bankruptcy court clearly indicating that the additional disbursements are included in the bankruptcy action. Also, if a lender disburses funds after it files a bankruptcy claim or more than 30 days after its receipt of bankruptcy notification, the lender must ensure that the total amount of disbursed funds is noted on the lender's proof of claim with the bankruptcy court.

For a bankruptcy action where a claim should not be filed because the loan is not dischargeable (see subsection 8.2.D. for requirements), the lender must make any remaining disbursements.

In all cases, a lender must adhere to the disbursement schedule provided by the school. If disbursements are scheduled by the school to occur after the claim filing deadline, the lender must not disburse the funds early in order to include the subsequent disbursements in the claim.

*USA Funds is advocating the adoption of this policy as standard *Common Manual* policy. In the mean time, this policy—which is currently in effect for loans guaranteed by USA Funds—is included in appendix C.

***6.3.G.**
Return or Refund of Loan Proceeds

If a school delivers FFELP loan proceeds to an eligible student within the permissible 10-day time frame preceding the beginning of a second or subsequent term (see "Early Delivery" under subsection 6.3.E.), but the student subsequently fails to return to classes for that term, USA Funds considers the loan to be a no-fault delivery. The school will not be held liable for the delivery of proceeds because it delivered the proceeds when the student was eligible to receive them—that is, the student was registered or enrolled at least half time for the upcoming term and met all other eligibility requirements. In this situation, the lender should continue to service the loan as it would any other eligible loan.

If it is demonstrated that a student intended to defraud the FFELP by accepting the proceeds and failing to return for the term for which they were intended, the loan is considered ineligible due to borrower error (see subsections 7.12.A. and 8.1.M.).

***7.12.B.**
Ineligibility Based on School Error

If a final determination is made by the lender or by USA Funds that the school was responsible for the ineligibility of loan proceeds, the school will be required to repay to the lender the ineligible amount disbursed plus accrued unsubsidized interest. The amount the school is required to repay is reduced by the amount paid by the borrower on the ineligible loan proceeds. Until the date the school repays the lender, the lender must continue to service the loan as eligible.

The school also must refund to the Department of Education the amount of any interest benefits and special allowance received by the lender on the ineligible funds from the date of disbursement through the date the school repays the funds.

If the school does not pay the liability timely, USA Funds will cease guaranteeing loans for the school until the payment is received. If the school does not repay or purchase the ineligible loan because the school closes or files bankruptcy, the lender must continue to service the loan as eligible. As such, the loan continues to be eligible for interest benefits and special allowance.

See also exception noted for 6.3.G.

***8.1.A.**
Minimum Due Diligence Standards

As a result of recent bankruptcy court rulings, a loan holder that fails to suspend collection activities after receiving notification of a bankruptcy filing from a borrower or borrower's attorney may incur liability through contempt charges from bankruptcy courts for violating the automatic stay provisions of bankruptcy law, as authorized in 11 U.S.C. §362. To minimize such liability, loan holders may suspend collection activities in response to any of the following types of notification that a borrower has filed bankruptcy:

- A telephone call or letter from the borrower.
- A telephone call or letter from the borrower's attorney.
- Confirmation by the bankruptcy court—received either directly from the court in writing, verbally, or electronically, or through another source (such as USA Funds).

If the loan holder suspends collection activities upon receiving notification from the borrower or borrower's attorney, the loan holder must immediately begin actively pursuing confirmation by the bankruptcy court that the borrower has filed bankruptcy. The loan holder must retain documentation of its efforts to ascertain whether the borrower filed bankruptcy, and must note the reason collection activities were suspended in the loan file.

Although notification of a bankruptcy filing from a borrower or borrower's attorney may be considered sufficient for suspending collection activities, a bankruptcy claim may be filed on a loan only after bankruptcy court confirmation of the borrower's filing is obtained. The timely filing deadline will be measured from the date the lender receives court confirmation (rather than the date the original unofficial notification is received).

If the loan holder is unable to obtain court confirmation of the bankruptcy filing within a reasonable period of time (preferably within 45 days), it must resume servicing on the loan at the point of delinquency, if any, that existed at the time the collection activities were suspended. A lender may capitalize the interest that accrues during the period when collection activities were suspended only if it obtains written authorization from the borrower.

8.2.D.
Bankruptcy Claims

See exception noted for subsection 6.2.I.

9.2
Borrower Eligibility

USA Funds will not guarantee a Consolidation loan made jointly to a married couple.

Consolidation for Borrowers with Defaulted Loans
USA Funds will guarantee a Consolidation loan that includes a defaulted loan only if the borrower makes satisfactory repayment arrangements with the loan holder before applying for the Consolidation loan. For these purposes, satisfactory repayment arrangements are defined as three consecutive, on-time, voluntary, monthly payments. Furthermore, USA Funds requires that the payments *(a)* satisfy interest accruing on each defaulted loan to be consolidated for which USA Funds serves as the guarantor and *(b)* result in no negative amortization on the borrower's loans.

If a borrower with a defaulted loan does not include that defaulted loan in the consolidation, the borrower must make six consecutive, on-time, voluntary, reasonable and affordable full monthly payments to the holder of the defaulted loan to regain eligibility for Title IV financial aid programs. Such a borrower is not eligible for a Federal Consolidation loan until his or her Title IV eligibility has been reinstated in this way.

D U.S. Department of Education Contact Information

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D.1
Institutional Review Branches

REGION I	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	(617) 223-9338	U.S. Department of Education Room 502 J.W. McCormack Post Office and Courthouse Building Boston, MA 02109
REGION II	New Jersey, New York, Puerto Rico, Virgin Islands	(212) 264-4022	U.S. Department of Education 12th Floor, Room 1206 75 Park Plaza New York, NY 10007
REGION III	Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, West Virginia	(215) 656-6442	U.S. Department of Education The Wanamaker Building 100 Penn Square East, Suite 511 Philadelphia, PA 19107
REGION IV	Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee	(404) 562-6315	U.S. Department of Education 61 Forsyth Street, SW, Room 18T20 Atlanta, GA 30303-3104
REGION V	Illinois, Indiana, Michigan, Minnesota, Ohio, Wisconsin	(312) 886-8767	U.S. Department of Education 111 North Canal Street, Suite 830 Chicago, IL 60606-7204
REGION VI	Arkansas, Louisiana, New Mexico, Oklahoma, Texas	(214) 880-3044	U.S. Department of Education 1999 Bryan Street, Suite 2720 Dallas, TX 75201-6817
REGION VII	Iowa, Kansas, Missouri, Nebraska	(816) 880-4053	U.S. Department of Education 10220 NW Executive Hills Blvd., 9th Floor Kansas City, MO 64153-1367
REGION VIII	Colorado, Montana, North Dakota, South Dakota, Utah, Wyoming	(303) 844-3677	U.S. Department of Education Parkway Center Building, Suite 800 1391 North Speer Blvd. Denver, CO 80204-2512
REGION IX	Arizona, California, Hawaii, Nevada, American Samoa, Guam, Federated States of Micronesia, Palau, Marshall Islands, Commonwealth of the Northern Marianas	(415) 437-8276	U.S. Department of Education 50 United Nations Plaza, Room 268 San Francisco, CA 94102-4987
REGION X	Alaska, Idaho, Oregon, Washington	(206) 287-1770	U.S. Department of Education 1000 Second Avenue, Suite 1200 Seattle, WA 98104-1023

D.2
Guarantor and Lender Review Branches

REGION I	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	(617) 223-9328	U.S. Department of Education J.W. McCormack Post Office and Courthouse Building, Room 502 Boston, MA 02109
REGION II	New Jersey, New York, Puerto Rico, Virgin Islands	(212) 264-4022	U.S. Department of Education 75 Park Place, Room 1206 MS 02-1081 New York, NY 10007
REGION III	Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, West Virginia		No Guaranteed Student Loan Branch (served by Region II)
REGION IV	Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee	(404) 562-6287	U.S. Department of Education 61 Forsyth Street, SW, Room 18T20-A Atlanta, GA 30303-3104
REGION V	Illinois, Indiana, Michigan, Minnesota, Ohio, Wisconsin	(312) 886-8767	U.S. Department of Education 111 North Canal Street, Suite 830 Chicago, IL 60605
REGION VI	Arkansas, Louisiana, New Mexico, Oklahoma, Texas	(214) 880-2405	U.S. Department of Education 1999 Bryan Street, Suite 2735 Dallas, TX 75201-6817
REGION VII	Iowa, Kansas, Missouri, Nebraska		No Guaranteed Student Loan Branch (served by Region VI)
REGION VIII	Colorado, Montana, North Dakota, South Dakota, Utah, Wyoming	(415) 556-4100	No Guaranteed Student Loan Branch (served by Region IX)
REGION IX	Arizona, California, Hawaii, Nevada, American Samoa, Guam, Federated States of Micronesia, Palau, Marshall Islands, Commonwealth of the Northern Marianas		U.S. Department of Education 50 United Nations Plaza, Room 524 San Francisco, CA 94102
REGION X	Alaska, Idaho, Oregon, Washington		No Guaranteed Student Loan Branch (served by Region IX)

D.3
Federal Student Aid Information Center

Federal Student Aid Information Center
P.O. Box 4129
Iowa City, IA 52243

Program participants may call (800) 4-FED-AID to obtain:

- General borrower assistance
- Dear Colleague Letters
- Compilations of student aid regulations
- Specific regulations

Program participants may call (319) 337-5665 to obtain:

- Duplicate Student Aid Reports
- Application status information

D.4
Student Financial Assistance Program: Accounting and Financial Management Service

Program participants may call (202) 205-0045 to obtain:

- T-bill rates for the current quarter
- T-bill rates for the most recent four quarters
- Lender Bulletin copies
- Blank ED Form 799s
- ED Form 799 Explanation Manual
- Current PLUS and SLS loan variable interest rates
- Current Stafford loan variable interest rates
- Assistance from a FFELP specialist

This number is answered by an automated system; callers may obtain the preceding information by selecting the appropriate option.

D.5
National Student Loan Data System (NSLDS) Customer Service Center

Program participants may call (800) 999-8219 to obtain information relating to the NSLDS Student Status Confirmation Report (SSCR) process.

D.6
Default Management Division

Questions about cohort default rate appeals and general cohort default rate issues should be directed to the Default Management Division at (202) 708-9396 or by e-mail at *IPOS_Default_Management_Division_@ed.gov*. Written requests can be sent to:

Courier Delivery

U.S. Department of Education
Default Management Division
ROB-3, Room 3905
7th and D Street, SW
Washington, DC 20202

U.S. Postal Service Delivery

U.S. Department of Education
Default Management Division
ROB-3, Room 3905
600 Independence Avenue, SW
Washington, DC 20202-5353

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E Guarantor Bulletins

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F Common Forms

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G Glossary

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Ability-to-Benefit (ATB): Basis on which a student without a high school diploma, a recognized equivalent, or a General Education Diploma (GED) may qualify for federal student financial assistance. The Department maintains a list of approved tests for measuring a student's ability to benefit from the educational program the student seeks. The test must be administered before the school admits the student. See subsection 5.2.H.

Academic Period: A measured period of enrollment (e.g., a semester, trimester, quarter, or clock hours).

Academic Year: For the purposes of Title IV aid, a period that begins on the first day of classes and ends on the last day of classes or examinations and that consists of at least 30 weeks of instructional time during which an undergraduate, full-time student is expected to complete either of the following:

- At least 24 semester or trimester hours, or 36 quarter hours in an educational program that measures program length in credit hours.
- At least 900 clock hours in an educational program that measures program length in clock hours.

The Department may, at its option, reduce the minimum number of weeks in an academic year.

Accrediting Agency: An agency that sets educational standards for schools, evaluates schools, and certifies that schools have met these standards. A "nationally recognized accrediting agency" is one that the U.S. Department of Education has recognized to accredit or preaccredit a particular category of school or educational program according to 34 CFR Parts 602 and 603. The agency grants accreditation status to schools.

The Department publishes a list of nationally recognized accrediting agencies or associations that the Department has determined to be reliable authorities as to the quality of education or training offered. If the Department determines that there is no nationally recognized accrediting agency or association qualified to accredit schools in a particular category, the Secretary of Education shall appoint an advisory committee, composed of persons specially qualified to evaluate training provided by schools in such category, to prescribe the standards a school must meet in order to participate in Title IV programs and to determine whether an individual school meets those standards.

Accredited Institution: Any school that meets standards established by a nationally recognized accrediting agency, and for which that agency has provided documented acknowledgment of the school's compliance. (See also **Preaccredited Institution**.)

Act, the: The Higher Education Act of 1965, as amended. Title IV, Part B of the Act addresses FFELP loans.

Actual Interest Rate: The annual interest rate a lender charges on a loan, which may be equal to or less than the "applicable"—or statutory—interest rate on that loan.

Additional Unsubsidized Stafford Loan: The additional amount of a student's eligibility for unsubsidized Federal Stafford loans. This amount is available only to independent undergraduate students, graduate/professional students, and dependent undergraduate students whose parents are unable to obtain a PLUS loan. See subsections 5.7.H. and 5.7.I. for more information.

Administrative Forbearance: A temporary suspension of, a reduction of, or an extension of time for making principal and/or interest payments on a Federal Stafford, SLS, PLUS, or Consolidation loan that is granted by the holder or lender, upon notice to the borrower or endorser, and that does not require a written request from the borrower or an agreement signed by the borrower before the forbearance is granted. See chapter 7.

Administrative Wage Garnishment: Process by which a guarantor, under federal law, may intercept a portion of the wages of a borrower with a defaulted FFELP loan.

Aggregate Loan Limit: The borrower's maximum allowable unpaid principal amount throughout the student's academic career. Principal outstanding is calculated by adding the total outstanding amount guaranteed, after subtracting any refunds, prepayments, payments, cancellations, funds discharged, or any other reductions to the principal. Capitalized interest or any collection costs that may have been added to the principal balance are not included in the borrower's aggregate loan limit. See subsection 5.7.H.

Agreement: Any written contract, agreement, or letter of understanding between the guarantor and another entity that specifies the rights and duties of each party with respect to participation in the guarantor's programs and/or utilization of the guarantor's services.

ALAS: See **Auxiliary Loans to Assist Students**

AmeriCorps: A national and community service program created by the National and Community Service Trust Act of 1993 and administered by the Corporation for National Service. For each year of full-time service in the program, participants will receive education awards to help finance their postsecondary education or pay back their student loans.

Annual Loan Limit: The maximum loan amount a student may borrow for each academic year of study under the Federal Stafford Loan Program.

Anticipated Completion (Graduation) Date: The date on which a student is expected to complete an academic program. This date is provided by a school official when certifying the borrower's loan, and in subsequent enrollment status updates.

Application: The form the borrower uses to apply for a Stafford, PLUS, or Consolidation loan.

Applicable Interest Rate: The maximum annual interest rate (under the Higher Education Act) that a lender may charge on a loan. Sometimes referred to as the **statutory interest rate**. Past and present applicable interest rates for FFELP loans are included in subsections 6.1.D., 6.1.F., and appendix A.

Assignment: Language placed on or attached to the promissory note indicating a change or transfer of loan ownership.

ATB: See **Ability to Benefit**

Authority: Any private nonprofit or public entity that may issue tax-exempt obligations to obtain funds to be used for the making or purchasing of FFELP loans. "Authority" also includes any agency, including a state postsecondary institution or any other instrumentality of a state or local government unit, regardless of the designation or primary purpose of that agency, that may issue tax-exempt obligations, any party authorized to issue those obligations on behalf of a governmental agency, and any nonprofit organization authorized by law to issue tax-exempt obligations.

Auxiliary Loans to Assist Students (ALAS): A previous name for what became the SLS loan. The Omnibus Reconciliation Act of 1981 extended the Parent Loans for Undergraduate Students (PLUS) program to include loans for independent undergraduate students and graduate and professional students. These loans were called Auxiliary Loans to Assist Students or ALAS. The Higher Education Amendments of 1986 repealed the ALAS program and authorized two separate loan programs in its place—Supplemental Loans for Students, or SLS loans, for graduate students, professional students, and independent undergraduates, and PLUS loans for parents of dependent students.

Award Year: The period between July 1 of a given calendar year and June 30 of the following calendar year.

Bankruptcy: Judicial action to stay the normal collection of debts against the petitioner, and cause those debts to be satisfied at the direction of the court. Bankruptcies are classified by "chapters," which refer to parts of a larger volume—the U.S. Bankruptcy Act. Types of bankruptcies include:

- **Chapter 7**. This is the most common form of bankruptcy, often referred to as "liquidation." In a Chapter 7 bankruptcy, the eligible assets of the borrower are liquidated and distributed among the creditors by a trustee, with preference given to secured creditors. This type of bankruptcy is frequently used by borrowers who are unemployed or have few or no assets.

- **Chapter 11**. A bankruptcy in which the borrower's debts are reorganized. This type of bankruptcy is seldom used by student borrowers and is most often used by financially troubled businesses.

- **Chapter 12**. Chapter 12 bankruptcy, which is similar to a Chapter 13 bankruptcy, applies only to certain farms and family farm operations with specific debt ceilings.

- **Chapter 13**. This is commonly referred to as the "wage earner" plan. A Chapter 13 bankruptcy allows individuals with regular incomes to satisfy their debts through a court-directed payment plan. Usually, the Chapter 13 debtor(s) has significant debts, but sufficient income to eventually pay the debts.

Base Stafford Loan Amount: The base amount of a student's eligibility for a subsidized and/or unsubsidized Federal Stafford loan(s). The base amount equals the loan limit applicable to a dependent undergraduate student. See subsections 5.7.D. and 5.7.H. for more information and examples.

Base Year: For need analysis purposes, the calendar year preceding the award year.

BBAY: See **Borrower-Based Academic Year**

Blanket Endorsement: A separate form indicating the transfer of contract rights and ownership of a group of loans. If a blanket endorsement is used to indicate ownership change, a copy of the endorsement must be placed in the borrower file of each loan purchased by the lender or secondary market.

Borrower: An individual to whom a FFELP loan is made. See chapters 5 and 9 for more information about borrower eligibility requirements and types and amounts of FFELP loans.

Borrower-Based Academic Year (BBAY): An academic year that is individualized per borrower and generally "floats" with the borrower's attendance and progress. For borrowers enrolled in programs of study at schools that are not term-based, the academic year is always a BBAY. A student's BBAY must begin with a term the student actually attends. For further discussion, see "Principles to Determine the Frequency for Annual Loan Limits" in the appendix to chapter 10 of *The Federal Student Financial Aid Handbook*.

Borrower-Specific Deferment: Refers to the federal requirement that eligibility for a deferment be applied to all of a borrower's loans, rather than to each separate loan. For example, a borrower who has used the maximum 24 months of internship deferment is not entitled to an additional internship deferment.

Branch Campus: A permanent location of a school that is geographically apart and independent of the main campus; that offers courses leading to a degree, certificate, or other recognized educational credential; that has its own faculty and administration or supervision; and that has its own budgetary and hiring authority. A branch campus is one type of "additional location" at which schools may offer instruction to students. A school must establish eligibility for each of its locations. See subsection 4.1.A.

Campus-Based Programs: The Federal Perkins Loan, Federal Work-Study, and Federal Supplemental Educational Opportunity Grant programs. These programs are administered by a school's financial aid office. A student's financial aid package may contain aid from one or more of these programs.

Cancellation (of a Guarantee): The revocation of a loan guarantee, which occurs if any of the following conditions exist:

- No loan proceeds were disbursed or delivered to the borrower.
- The lender check(s) was never cashed.
- None of the loan proceeds were negotiated within 120 days of the date on which they were disbursed.
- EFT and master check loan proceeds in the school's account are not delivered to the borrower within 120 days after being transferred to the account.
- The loan is repaid in full within 120 days of final disbursement.

The guarantee is not lost on the remainder of the loan if one disbursement is canceled.

Capitalization: An increase in the principal balance of a Stafford, SLS, PLUS, or Federal Consolidation loan that occurs when a lender adds the interest accrued on the loan to the outstanding principal balance.

Capitalized Interest: Accrued interest added to the borrower's outstanding principal. Subsequent interest accrues on the new total principal balance, which includes any capitalized interest.

Certification: The act of attesting that something is true or meets a certain standard. For example, the school certifies the borrower's eligibility for a loan and, if applicable, interest benefits. The borrower completes an application, promissory note, or deferment form, thereby certifying that certain eligibility criteria have been met.

CFR: See **Code of Federal Regulations**

Change of Control: An occurrence that signifies that a different person, partnership, or corporation has obtained authority to control the actions of a school. For example, a change of control can occur when stock is transferred to the parent corporation; when schools merge or divide; when a company is retained to manage a school; or when a school transfers assets or liabilities to the parent corporation.

Check: A draft (drawn on a financial institution) that is payable on demand and that requires the personal endorsement or other written approval of the borrower to be cashed.

Citizen/Eligible Noncitizen: An eligibility requirement that must be met by Federal Stafford, PLUS, and SLS loan borrowers and recipients. See subsection 5.2.D.

Claim: A request that the lender (or lender's servicer) files with the guarantor for reimbursement of its losses on a Federal Stafford, SLS, PLUS or Consolidation loan due to the borrower's death, disability, default, or bankruptcy; school closure; or false certification of the borrower's eligibility.

Clock Hour: A time period consisting of one of the following:

- 50–60 minutes of class, lecture, or recitation in a 60-minute period.
- 50–60 minutes of faculty-supervised laboratory, shop training, or internship in a 60-minute period.
- 60 minutes of preparation in a correspondence course.

COA: See **Cost of Attendance**

Code of Federal Regulations (CFR): The collection of federal regulations promulgated by the U.S. government. The Department's regulations are codified in Volume 34.

Cohort Default Rate: The percentage of Stafford and SLS loan borrowers who default before the end of the fiscal year following the fiscal year in which they entered repayment on their loans. The Department calculates this rate annually to determine the default experience of students who attended a particular school during a particular period of time. Unless otherwise specifically indicated, the cohort default rate includes the FFELP cohort default rate or the weighted average cohort rate. See chapter 10 of this manual for a full discussion of cohort default rates and the appeals process.

Collection Charges: Costs incurred by the lender or its agents in collecting overdue payments. These charges may include, but are not limited to, attorney's fees, court costs, and telegrams; they may not include routine costs associated with preparing letters or notices or making telephone calls to the borrower.

Comaker: One of two joint PLUS or Federal Consolidation loan borrowers, who are each held equally liable for the loan's repayment. Before the introduction of the common Stafford loan application/promissory note, some lenders may have required comakers on old subsidized Stafford loans.

Commissioned Salesperson: A person who receives compensation related to, or calculated on the basis of, student applications for enrollment, actual student enrollments, or student acceptances for enrollment.

Common Application: A standardized application and promissory note developed by FFELP participants and approved by the Department by which a borrower applies for a FFELP loan. Different application forms are required for Federal Stafford and Federal PLUS loans. Common applications are periodically revised and approved to reflect major changes in FFELP regulations.

Confirmation (as it relates to the MPN): A process by which the school, lender, or guarantor (on behalf of the school or lender) advises the borrower of the proposed loan types and amounts. The borrower must take action to confirm the loan type or request a specific loan amount. A school, lender, or guarantor (on behalf of the school or lender) may establish confirmation for the entire loan or may request that the borrower confirm each disbursement of the loan.

Congressional Methodology (CM): A discontinued need analysis formula for campus-based and student loan programs that has been replaced by the **Federal Need Analysis Methodology**.

Consummated Loan: A loan for which a disbursement check has been negotiated or EFT or master check funds have been delivered to the borrower. For example, the loan would be considered consummated if the borrower had cashed the check, if an individual check, or the school had applied the proceeds to the student's account, if included in a master check or EFT transmission before the school returned the proceeds to the lender. See Unconsummated Loan.

Correspondence Study: A course of study in which the school provides instructional materials, including examination on those materials, to students who are not physically attending classes at the school. Instruction may be provided, in whole or in part, by video technologies. If the school offers 50% or more of its total courses by telecommunications, or by a combination of telecommunications and correspondence courses, the telecommunications courses offered by that school are considered "correspondence courses." A home-study course for which instruction is provided by video cassettes or discs is also considered a correspondence course during any award year unless the school provides instruction via the same media, during the same award year, to its on-campus students. If a course is a combination of correspondence work and residential training, the entire course is considered correspondence study. See subsections 4.1.D. and 5.2.I. for more information on correspondence study.

Cosigner: A signer of a promissory note who is secondarily liable for a loan obligation. This term is no longer used in federal regulations. See also **Endorser**.

Cost of Attendance (COA): An estimate of the student's educational expenses for a period of enrollment. See subsection 5.7.E.

Cost of Education: See **Cost of Attendance**

Cost-Less-Aid: A figure calculated by deducting all financial assistance the student has been or will be awarded for the loan period from the cost of attendance for the same period of enrollment.

Cumulative Loan Limit: See **Aggregate Loan Limit**

Cure: Reinstatement of a loan's guarantee upon completion of a prescribed series of loan collection activities; also the process by which the loan's guarantee is reinstated.

Deactivation: Loss of eligibility for a lender to participate in the FFELP. Beginning in December 1994, the Department will notify lenders that have failed to submit an ED Form 799 for two consecutive quarters that they are candidates for deactivation.

Dear Colleague Letter (DCL): A communication from the Department that explains and clarifies the Department's guidance regarding federal regulations and statutes.

Debt-Management Counseling: Counseling provided to a student about debt and accumulated indebtedness. Counseling is required both before the student receives the first disbursement of the student's first loan—often referred to as entrance counseling, and when the student is scheduled to complete an academic program—commonly referred to as exit counseling. See subsections 4.9.B. and 4.9.C.

Default: The failure of a borrower (or endorser or comaker, if any) to make installment payments when due, or to meet other terms of the promissory note or other written agreement(s) with the lender under circumstances where the Department or guarantor of the loan reasonably concludes that the borrower no longer intends to honor the borrower's obligation to repay a loan, provided that this failure persists for the most recent consecutive 180-day period (for a loan repayable in monthly installments) or the most recent 240-day period (for a loan repayable in less frequent installments). See subsection 8.2.A.

Deferment: A period of time during repayment in which the borrower, upon meeting certain conditions, is not required to make payments of loan principal. See sections 7.9 and 7.10 of this manual.

Delayed Delivery: The federally mandated delay in the school's delivery of the first disbursement of loan funds for first-year, first-time undergraduate Stafford loan borrowers. Schools subject to delayed delivery must delay the delivery of the first disbursement until the 31st day of the student's first payment period. For more information on delayed delivery provisions, see "Delayed Delivery Requirement" under subsection 6.3.E.

Delayed Disbursement: The federally mandated delay of the first disbursement of loan funds for first-year, first-time undergraduate Stafford loan borrowers. The school is prohibited from scheduling the first disbursement of a loan to these students earlier than:

- The 28th day of the first payment period if the loan is disbursed by EFT or master check.

- The first day of the first payment period if the loan is disbursed by individual check.

Delinquency: A period that begins on the day after the due date of a payment when the borrower fails to make the equivalent of one full payment. See subsection 8.1.B.

Department, the: The U.S. Department of Education or an official or employee of the Department acting for the Department under a delegation of authority.

Dependent Student: A student who does not meet the eligibility requirements for an "Independent Student," under the Higher Education Act of 1965, as amended. See **Independent Student.**

Diligent Effort: An attempt to perform a required activity in a matter that complies with federally mandated procedures and requirements. See chapter 7.

Disability: A medically determined condition that renders a person unable to work and earn money, or to attend school. A borrower (or his spouse or dependent) is considered to be *temporarily totally disabled* if the condition is expected to be of a short and finite duration (see subsection 7.10.F.); a borrower is considered *totally and permanently disabled* if this condition is expected to continue for a long or indefinite period of time, or to result in death (see subsection 8.2.B.).

Disbursement: The transfer of loan proceeds by individual check, master check, or electronic funds transfer (EFT) by a lender to a borrower, a school, or an escrow agent (see section 6.2). For a Consolidation loan, disbursement is the transfer of borrower loan proceeds from the consolidating lender to the current holder of the loan being consolidated (see section 9.4).

Disbursement Date: For a loan disbursed by check or draft, the date the check or draft is issued. For a loan disbursed by electronic funds transfer (EFT) or wire transfer, the date the funds are transferred from the lender to the school or escrow agent.

Discharge: The release of a borrower from a loan obligation due to the borrower's bankruptcy, the closing of a borrower's school, the borrower's (or student's) death, the borrower's total and permanent disability, or the school's false certification of the borrower's eligibility for a FFELP loan.

Disposable Income: That part of a borrower's compensation from an employer and other income from any source that remains after the deduction of any amounts required by law to be withheld, or any child support or alimony payments that are made under a court order or legally enforceable written agreement. Amounts required by law to be withheld include, but are not limited to, federal and state taxes, social security contributions, and wage garnishment payments.

Documentation: A written or printed paper, a supporting reference, or a record that can be used to furnish evidence, proof, or information.

Due Diligence: The procedures required for attempting to satisfactorily resolve a delinquency and prevent a default in accordance with federal regulations. The lender must document the performance of these attempts, and the attempts must be at least as forceful as those generally used for consumer loans. See section 8.1.

Economic Hardship: A period during which the borrower is working full time but is earning an amount that does not exceed the greater of the minimum wage or the poverty line for a family of two. Economic hardship also exists if a borrower's monthly payments on federal education loans are equal to or greater than 20 percent of the borrower's total monthly gross income, as defined in FFELP regulations.

ED Form 799: Lender's Interest and Special Allowance Request and Report, a federal form that a lender uses to report loans made (and resulting origination fees owed) by the lender to the Department and interest benefits and special allowance earned by the lender. The fees owed are usually deducted from what the Department owes the lender for interest benefits and special allowance. See appendix A.

EFA: See **Estimated Financial Assistance**

EFC: See **Expected Family Contribution**

Electronic Funds Transfer (EFT): The electronic transfer of Stafford or PLUS loan proceeds from the lender to an account at the school or the school's financial institution. See subsection 6.2.D.

Eligibility Letter: A term used to describe the materials the Department's Institutional Participation Division sends to a school that has received federal approval for participation in the Title IV programs. The "letter" includes an Approval Notice and a copy of the school's Program Participation Agreement.

Eligible Borrower: A borrower or potential borrower who meets federal eligibility criteria for a Federal Stafford loan or, in the case of a parent borrower, a Federal PLUS loan. See subsections 5.2.A., 5.2.B., 5.2.C., and 5.2.D. for specific criteria.

Eligible Lender: See section 3.1 of this manual.

Eligible School: A postsecondary institution of higher education or a vocational school declared eligible by the U.S. Department of Education to participate in the FFELP. Some guarantors may require schools to complete a separate agency-specific participation agreement. See section 4.1.

Eligible Student: A student who meets federal student eligibility criteria. See subsection 5.2.B. for specific criteria.

Emergency Action: A special action taken by the guarantor or the Department to temporarily immediately suspend a school, lender, or servicer from participation in the guarantor's programs prior to the initiation of formal Limitation, Suspension, and Termination procedures. See subsection 12.1.D.

Endorser: A signer of a promissory note who is secondarily liable for a loan obligation, i.e., who agrees to pay if the borrower does not. A lender may require a PLUS borrower with adverse credit to obtain a creditworthy endorser in order to receive the loan.

Enrolled: The status of a student who has met either of the following requirements:

- Completed the registration requirements (except for the payment of tuition and fees) at the school the student is attending.
- Been admitted into an educational program offered predominantly by correspondence and has submitted one lesson, completed by the student after acceptance for enrollment and without the help of a representative of the school.

Enrollment Update Report: See **Loan Transaction Statement**

Entity: For purposes of this manual, any organization, institution, government agency, nonprofit corporation, or other group that participates in federal student financial aid programs.

Entrance Counseling (or Entrance Interview): See **Debt-Management Counseling**

Escrow Agent: A guarantor or other eligible lender that receives the proceeds of a FFELP loan as an agent of an eligible lender for the purpose of transmitting those proceeds to the borrower or the borrower's school.

Estimated Financial Assistance (EFA): The school's estimate of the amount of financial assistance from federal, state, institutional, or other sources that a student (or parent on behalf of a student) will receive for a period of enrollment. This may include scholarships, grants, financial need-based employment, or loans. EFA does not include certain loans used to replace the expected family contribution or Federal Perkins Loans or Federal Work-Study funds that the student has declined. See subsection 5.7.G.

Excess Interest Rebate: See **Windfall Profits**

Exit Counseling (or Exit Interview): See **Debt-Management Counseling**

Expected Family Contribution (EFC)**:** The amount a student and the student's spouse or family are expected to pay toward the student's cost of attendance. The federal Need Analysis Methodology must be used to calculate the EFC. See subsection 5.7.F.

FAA: See **Financial Aid Administrator**

FAFSA: See **Free Application for Federal Student Aid**

FAT: See **Financial Aid Transcript**

FDLP: See **Federal Direct Loan Program**

Federal Direct Loan Program (FDLP): A student loan program authorized on July 23, 1992, by Title IV, Part D, of the Higher Education Act. The Federal Direct Loan Program offers Federal Direct (Subsidized) Stafford loans, Federal Direct Unsubsidized Stafford loans, Federal Direct Consolidation loans, and Federal Direct PLUS loans. The FDLP is similar to the FFELP, except that funding comes directly from the U.S. Treasury rather than from private lending institutions.

Federal Family Education Loan Programs (FFELP): Loan programs authorized by Title IV, part B of the Higher Education Act of 1965, as amended, including the Federal Stafford, Federal PLUS, Federal SLS, and Federal Consolidation Loan Programs. These loan programs are funded by lenders, guaranteed by guarantors, and reinsured by the federal government. These programs are defined individually in 34 CFR 668.

Federal Interest Benefits: The federal government's payment of accrued interest on subsidized Stafford loans to the lender on behalf of the borrower during in-school, grace, and deferment periods (see section 7.7). Some Consolidation loans also may qualify for interest benefits (see section 9.6). For more detailed information regarding the collection of federal interest benefits, see section A.1 of appendix A.

Federal Need Analysis Methodology (FM): The formula used to calculate the expected family contribution with regard to determining the amount of Title IV assistance available to a borrower. Introduced for 1993–94 as a replacement for the previous Congressional Methodology (CM) and Pell Grant Index (PGI).

Federal Register: A federal government publication, published each weekday (except federal holidays), that lists regulations, regulatory amendments, notices, and proposed regulatory changes for all federal executive agencies.

FFELP: See **Federal Family Education Loan Program**

Final Demand: A letter that the lender mails to the borrower demanding full payment of a delinquent or ineligible account. The letter is required as part of the due diligence procedures for collecting a loan that is seriously delinquent or ineligible. The Final Demand letter is mailed on or after the 151st day of delinquency for loans payable in monthly installments. The letter must be mailed at least 30 days before the lender files a default claim.

Final Regulations: Federal program rules, which are published in the ***Federal Register*.** Final regulations usually take effect 45 days after the date of publication.

Financial Aid Administrator (FAA): A staff member at an eligible school who is charged with the administration of financial aid programs.

Financial Aid Package: The total amount of financial aid that a school awards a student. Federal and nonfederal aid such as loans, grants, or work-study are combined into a "package" to help meet the student's need. Using available resources to give each student the best possible aid package is one of the major responsibilities of a school's financial aid administrator.

Financial Aid Transcript: An official record of the federal financial aid a student has received at schools the student previously attended. The record is used to assess the amount of federal financial aid the student has received and to prevent the award of federal funds for which the student or the parent of a dependent student is not eligible. The record may be obtained from the National Student Loan Data System (NSLDS) or may be a paper report received from the previous schools.

Financial Need: The student's cost of attendance less the expected family contribution. In determining a student's eligibility for a subsidized Stafford loan and a FFELP borrower's total loan amount, the student's estimated financial assistance is also subtracted from the cost of attendance.

Forbearance: A period of time during which the borrower is permitted to temporarily cease making payments or reduce the amount of the payments. The borrower is liable for the interest that accrues on the loan during the forbearance period. Some forbearances are entitlements for eligible borrowers; others are granted at the discretion of the lender. See section 7.11.

Foreign School: An eligible school located outside the United States and its territories.

Free Application for Federal Student Aid (FAFSA): The form the student must complete to apply for federal Title IV financial assistance, including Stafford loans. The student must include financial information on the student's household so that the expected family contribution can be calculated. See subsection 5.7.F.

Full-Time Student: A student enrolled in an institution of higher education (other than a student enrolled in a program of study by correspondence) who is carrying a full academic workload as determined by the school under standards applicable to all students enrolled in that student's particular program. The student's workload may include any combination of courses, work, research, or special studies, whether or not for credit, that the school considers sufficient to classify the student as a full-time student. See subsection 5.7.B. for a detailed definition of a full-time student that includes credit- and clock-hour requirements.

Funds: Any monies (including checks, drafts, or other instruments); any commitment to provide money; or any commitment of insurance that has been, or may be, provided under the guarantor's programs to a borrower enrolled at and attending a participating school, or a borrower accepted for enrollment at a participating school.

Gap: A period during the servicing of a loan in repayment when due diligence activities are required by regulations but no due diligence activities (collection activities) are performed. For a loan serviced under regulations published December 18, 1992, a gap greater than 45 days (greater than 60 days in the case of a transfer) results in the loss of the loan's guarantee.

Previously, the term "gap" was defined in Appendix D of 34 CFR 682, and was applicable to loans serviced under due diligence provisions published November 10, 1986. For loans serviced under these "old" due diligence provisions, a gap in due diligence activities did not result in a loss of the loan's guarantee unless the lender had committed a violation of at least one due diligence requirement. [§682.411(j); §682, Appendix D; Appendix A of DCL 96-G-287/96-L-186]

Grace Period: The period that begins the day after a Stafford loan borrower ceases to be enrolled at least half time at an eligible school, ends the day before the repayment period begins, and during which payments of principal are not required. For a borrower with a Stafford loan that has not yet entered repayment who also has an SLS loan, the grace period for the SLS loan is the equivalent of the grace period for the Stafford loan if the borrower requests grace on his or her SLS loan(s) (see section 7.2).

Grade Level: A student's academic class level, as certified by a school official. Undergraduate students are 01 (freshman/first year) through 05 (fifth year/other undergraduate); graduate and professional students are A (first year) through D (fourth year and beyond).

Graduate or Professional Student: A student who:

- Is enrolled in a program or course above the baccalaureate level at an institution of higher education, or enrolled in a program leading to a first professional degree.
- Has completed the equivalent of at least three years of full-time study at an institution of higher education, either before entrance into the program or as part of the program itself.
- Is not receiving Title IV aid as an undergraduate student for the same period of enrollment.

Graduated Repayment Schedule: A repayment schedule under which the amount of the borrower's installment payment is scheduled to change (usually by increasing in two or more increments) during the course of the repayment period. The Graduated Repayment Schedule cannot exceed 10 years, excluding in-school, grace, deferment, or forbearance periods.

Guarantee: A conditional legal obligation, as defined in an agreement by and between a guarantor and a lender, for the guarantor to reimburse the lender for some portion of a loan that is not repaid by the borrower due to default, death, disability, bankruptcy, borrower ineligibility, false certification of borrower eligibility, or school closure.

Guarantee Disclosure: The form used by the guarantor that serves as evidence that the loan identified on the form has been insured (guaranteed) under the guarantor's program (see also **Guarantee**). The form also provides relevant loan data, which may include the loan amount, interest rate, guarantee and origination fees (if applicable), and projected maturity date. See subsection 6.1.G.

Guarantee Fee: A fee charged by a guarantor for each loan it guarantees. In most cases, the lender reduces the amount of the loan proceeds by this amount, and the fee is remitted to the guarantor. The Higher Education Act limits this fee to no more than one percent of the principal. See section 6.6.

Guarantor (or Guaranty Agency): A state or private nonprofit organization that has an agreement with the U.S. Secretary of Education to administer a loan guarantee program under the Higher Education Act.

Guaranty Agency: See **Guarantor**

Half-Time Student: A student who is**:** (1) enrolled in a participating school; (2) carrying an academic workload that amounts to at least half of the workload of a full-time student, as determined by the school; and (3) not a full-time student. A student enrolled solely in an eligible program of study by correspondence is considered a half-time student.

HEA: The Higher Education Act of 1965, as amended.

Hearing: The orderly presentation of arguments and evidence before a Hearing Officer.

Hearing Officer: A person with no prior involvement in a dispute under the Limitation, Suspension, and Termination procedures outlined in chapter 12 of this manual. The Hearing Officer for any hearing will be selected by the guarantor.

Holder: An eligible lender in possession of a FFELP loan promissory note that is payable to or has been assigned to the lender. A federal or state agency or an organization or corporation acting on behalf of such an agency and acting as a conservator, liquidator, or receiver of an eligible lender may also be considered a holder.

ICA/Location Cure: See **Intensive Collection Activities**

Incarcerated: The status of a student or borrower who is serving a criminal sentence in a federal, state, or local penitentiary, prison, jail, reformatory, work farm, or other similar correctional institution. A student or borrower who is living in a halfway house or in home detention or who has been sentenced to serve only weekends is not considered to be incarcerated.

Income-Contingent Repayment Schedule: A repayment schedule for some FDLP loans under which the borrower's monthly payment amount is adjusted annually, based on the total amount of the borrower's Direct loans, the borrower's family size, and the Adjusted Gross Income reported on the borrower's most recent income tax return. In the case of a married borrower, who files a joint income tax, the AGI includes the spouse's income.

Income-Sensitive Repayment Schedule: A repayment schedule for some FFELP loans under which the borrower's monthly payment amount is adjusted annually, based solely on the borrower's expected total monthly gross income received from employment and other sources during the course of the repayment period.

Independent Student: A student who meets one or more of the following criteria:

- An individual who is at least 24 years old by December 31 of the award year.
- An orphan or ward of the court.
- A veteran of the U.S. Armed Forces.
- A graduate or professional student.
- A married person.
- An individual with legal dependents other than a spouse.
- A student for whom the school's financial aid administrator determines and documents the student's independent student status based on the administrator's professional judgment of the student's unusual circumstances.

Ineligible Borrower: A borrower who does not meet federal eligibility criteria for a Federal Stafford loan or, in the case of a parent borrower, a Federal PLUS loan. See subsection 5.2.A. for specific eligibility criteria, and subsections 8.1.M. and 8.2.F. for more information.

In-School Period: The time during which a student is enrolled on at least a half-time basis at a participating school. See section 7.1.

Institution: Generally refers to a school participating in the Title IV programs. See **Participating School**.

Institution of Higher Education: A school that:

- Is located in a state (see **State**).
- Admits as a regular student only a person who has a certificate of graduation from a secondary school or a recognized equivalent or has demonstrated the ability to benefit from the school's education or training program by passing a federally approved standardized test.
- Is legally authorized in each state in which it is physically located to provide, and provides within that state, a program of postsecondary education that awards an associate, bachelor's, graduate, or professional degree or provides a program of not less than two years in length that is acceptable for full credit toward such a degree or training program of at least one year that leads to a certificate, degree, or other recognized credential and prepares students for gainful employment in a recognized occupation.
- Is a public or other nonprofit school and is accredited by a nationally recognized accrediting agency or association approved by the U.S. Department of Education for this purpose, or if not so accredited, is a school that the Department determines will meet the accreditation standards of such an agency or association within a reasonable period of time.

Insurance Premium: See **Guarantee Fee**

Intensive Collection Activities (ICA): A series of collection activities performed within an abbreviated time frame. Performance of the activities within the time frames prescribed reestablishes the guarantee on loans on which the lender's noncompliance with due diligence requirements has resulted in the cancellation of the guarantee. See subsection 8.8.K.

Interest: The charge made to a borrower for use of a lender's money. Past and present applicable interest rates for FFELP loans are included in subsections 6.1.D. and 6.1.F.

Interest Benefits: See **Federal Interest Benefits**

Interim Period: The period during which a Stafford loan borrower is in the in-school or grace period. If the borrower returns to school before the grace period is fully used, the borrower continues to qualify for in-school status and to be considered in the interim period.

Invalid Telephone Number: For purposes of lender due diligence requirements in the collection of loans, a functioning telephone number that has been assigned to someone who has no knowledge of or relationship with the borrower.

IRS Offset: An interception by the U.S. Internal Revenue Service (IRS) of the income tax refund of a borrower with a defaulted FFELP loan. The amount offset—less a processing fee—is forwarded to the Department by the guarantor and ultimately applied to the defaulted loan.

Last Date of Attendance: The last day the student was physically present in class, as confirmed by the student's attendance records.

Late Charges: Charges that the lender may require the borrower to pay if the borrower fails to pay all or a portion of a required installment payment within 15 days after it is due. This charge may not exceed 6 cents for each dollar of each late installment.

Late Conversion: The scheduling of a Stafford, SLS, PLUS, or Consolidation loan borrower's first payment due date beyond the normal regulatory time limits for establishing that date. See subsection 7.4.B. for information on the regulatory time frames.

Late Disbursement or Delivery: A disbursement made by a lender or delivered by a school after the end of the loan period or the date on which the student ceased to be enrolled on at least a half-time basis. See subsections 6.2.H. and 6.3.

Leader, Summer Term: A summer term that comes at the beginning of a school's Scheduled Academic Year.

Leave of Absence: A break in enrollment, not including semester or spring break(s), that is requested by the student and sanctioned by the school. The leave of absence may be no longer than 60 days, and the student may be granted no more than one leave of absence during a 12-month period.

Legal Guardian: An individual appointed by a court to be a "guardian" of a person, and specifically required by the court to use his or her financial resources for the support of that person.

Lender: See section 3.1 of this manual.

Lender Fee: A fee that the holder of the loan must pay to the Department on any loan first disbursed on or after October 1, 1993. The fee is equal to 0.5% of the principal amount of the loan and is deducted from interest and special allowance due the lender. The lender remits the fee by making an entry on the ED Form 799 that results in an offset of the amount of quarterly interest and special allowance benefits due to the lender. The lender may not pass this fee on to the borrower. For more information about the lender fee, see subsection 6.6.G. and appendix A.

Lender of Last Resort (LLR): A lender (or guarantor, in some cases) that agrees to make a subsidized Stafford loan to an otherwise eligible borrower who has been unable to find a lender willing to make a loan. See section 3.7.

Lender Participation Questionnaire for New Lenders: The application form that a lender must complete and return to the Department before receiving approval to participate in the FFELP.

Lender's Request for Assistance (LRA): A form or procedure by which a lender requests preclaim assistance from the guarantor. See subsection 8.1.J. See also **Preclaim Assistance**.

Limitation: The continuation of a school's eligibility to participate in the guarantor's programs, subject to compliance with special conditions or restrictions established by agreement with the Department or the guarantor. See subsection 12.1.A.

Loan Assignment: See **Assignment**

Loan Period: The period of time for which a loan application is certified.

Loan Proceeds: The amount of loan funds that have been guaranteed.

Loan Transaction Statement: A guarantor report, also referred to as an enrollment update report, that provides enrollment updates to the lender.

Loan Transfer: A change in the identity of the party that owns a borrower's loan(s), or the servicer of the loan. See subsections 3.4.B. and 3.5.E.

Location Cure (ICA): See **Intensive Collection Activities**

Mandatory Administrative Forbearance: Forbearance that a lender is required to grant for periods during which the borrower is involved in a local or national emergency or military mobilization or resides in a designated disaster area. A lender is also required to grant a mandatory administrative forbearance for up to three years if the borrower's repayment period must be extended due to the effect of changes in the variable interest rate on standard or graduated repayment terms and for up to five years to accommodate income-sensitive repayment schedules. See subsection 7.11.D.

Mandatory Forbearance: Forbearance that a lender is required to grant for medical or dental internships and residencies after the borrower's in-school deferment period has expired, for service in AmeriCorps, for excess student loan debt burden, for participation in the student loan repayment programs as administered by the U.S. Department of Defense, and for nonmedical or dental internships. See subsection 7.11.C.

Master Check: A single check issued from a lender or disbursing agent to a school that includes loan disbursements for two or more borrowers; a nonelectronic process for transferring funds that mirrors electronic funds transfer (EFT).

Master Promissory Note (MPN): A promissory note under which the borrower may receive loans for either a single period of enrollment or multiple periods of enrollment. If used for attendance at a school eligible to use the multi-year feature, most borrowers sign the MPN once to receive maximum eligibility under the subsidized and unsubsidized Stafford loan programs. Otherwise the borrower must sign a new MPN for each new loan.

Multiple Data Entry (MDE) Processor: An organization under contract with the Department that collects all the data required to calculate eligibility for the Pell Grant program and performs need analysis.

Multiple Disbursements: Disbursement at predesignated times of a Federal Stafford or PLUS loan—usually in two or more installments of approximately equal increments. See subsection 6.2.B.

National and Community Service Trust Act: The federal legislation that created a national and community service program, including AmeriCorps. The program is administered by the Corporation for National Service.

National Credit Bureau: A credit reporting agency with a service area encompassing more than a single region of the country.

National of the United States: A citizen of the United States or, as defined in the Immigration and Nationality Act, a noncitizen who owes permanent allegiance to the United States.

National Student Loan Data System (NSLDS): A database comprised of information from guarantors, schools, lenders, and the Department of Education which contains information on Title IV aid received by students.

Need Analysis: A standardized assessment of the ability of a student or of a student's family to contribute toward educational expenses.

New Borrower: A borrower who has no outstanding balance on a FFELP loan at the time he or she signs a promissory note for a FFELP loan.

Nonsubsidized Loan: A loan that is not eligible for federal interest benefits. The borrower is responsible for paying the interest on the outstanding principal balance of a nonsubsidized loan throughout the life of the loan. During in-school, grace, and deferment periods, these interest payments are normally made on a monthly or quarterly basis, or are capitalized. *Nonsubsidized loans were guaranteed by some guarantors before the introduction of unsubsidized Stafford loans.*

Non-Term-Based Institution: A school that measures its academic year in credit or clock hours rather than academic terms (e.g., semesters, trimesters, or quarters).

Normal Commercial Skip Tracing: Techniques used to locate a person whose address is unknown. Examples of these techniques may include contacting an endorser (e.g., to locate a borrower), a borrower (e.g., to locate an endorser or comaker), a relative, a reference, individuals, entity identified in a borrower's loan file, Directory Assistance or a comparable service; attempting to contact the person by calling the last known telephone number; performing a social security number search via a credit report; reviewing city directories; processing information contained on the current credit report; or checking with a state licensing agency, a trade association, or a motor vehicle bureau (see subsection 8.1.I. for address skip tracing requirements). See also **Skip Tracing**.

Notification (as it relates to the MPN): A process by which the school, lender, or guarantor notifies the borrower of the proposed loan types and amounts. The borrower is required to take action only to reject or adjust the type or amount of the loan.

NSLDS: See **National Student Loan Data System (NSLDS)**

Official: The person at the guarantor with the responsibility for initiating an Action under the Limitation, Suspension, or Termination procedures outlined in chapter 12 of this manual.

One-Academic-Year Training Program: A program that is at least at least 30 weeks in length during which the student earns at least:

- 24 semester or trimester hours or units, or 36 quarter hours or units at a school using credit hours or units to measure academic progress.
- 900 clock hours of supervised training at a school using clock hours to measure academic progress.
- 900 clock hours in a correspondence program.

Origination Fee: A fee charged to offset the cost of interest, special allowance, and reinsurance payments by the federal government on a FFELP loan. This fee, like the guarantee fee, may be subtracted from the borrower's loan proceeds. See section 6.6.

Overaward: Any amount of a student's total financial assistance (excluding Pell Grants) that exceeds the student's financial need. See subsection 6.3.B.

Parent: For purposes of PLUS loan eligibility, a student's natural or adoptive mother, father, court-appointed legal guardian, or the spouse of a parent who remarried if the spouse's income and assets would have been taken into account when calculating a dependent student's expected family contribution. See also **Legal Guardian**.

Partial Cancellation: Cancellation of a disbursement or a portion of a disbursement rather than of an entire loan.

Participating School: A school that meets the standards for participation in Title IV, HEA programs in subpart B, has a current Program Participation Agreement with the Department, and is eligible to receive funds under these programs. See **Eligible School**.

Payment Period: The basis on which a school must schedule and deliver disbursements for a particular loan period. The payment period begins on the first day of regularly scheduled classes. A payment period is determined based on the structure of the school's academic program. At a school that does not use standard terms, a payment period is measured in credit or clock hours completed by the student in relation to the length of the student's program of study. The payment period requirement does not eliminate the multiple disbursement requirement for a school to deliver loan proceeds in substantially equal installments, with no installment exceeding one-half of the loan amount. See subsection 5.8.D.

Pell Grant: A federal need-based grant.

Period of Enrollment: As defined by federal regulation, the period for which a Stafford or PLUS loan is intended. The period of enrollment must coincide with a bona fide academic term established by the school for which the school's charges are generally assessed, i.e., semester, trimester, quarter, length of the student's program or the school's academic year. The period of enrollment is also referred to as the loan period (see subsection 5.7.C.).
In addition, the term "period of enrollment" is commonly used by the financial aid community to refer to the period of time during an academic year when a student is enrolled at the school.
[§682.200(b); §682.603(f)(1) and (2)]

Permanent Resident of the United States: A person who meets certain requirements of the Immigration and Naturalization Service (INS). Valid documentation of permanent residency includes the following**:** I-551, I-151, I-181, I-94, or a passport stamped processed for I-551, "Temporary evidence of lawful admission for permanent residence."

Post-Deferment Grace Period: A 6-month period following a deferment during which payments are not required. The 6-month post-deferment grace period applies only to loans disbursed before October 1, 1981, and, in some cases, to loans for borrowers who participated on active-duty status in certain emergency military mobilizations, such as Operations Desert Shield/Desert Storm. See subsection 7.9.F.

Preaccredited School: A public or private nonprofit school that is progressing towards accreditation within a reasonable period of time, as certified by an accrediting agency. The status must be recognized by the Department for purposes of Title IV program eligibility. See also **Accrediting Agency**.

Preclaim Assistance: The help provided to a lender by the guarantor in order to prevent a delinquent loan from defaulting. See subsection 8.1.J. See also **Lender's Request for Assistance (LRA)**.

Preclaim Request Period: The period during which a lender must submit a request for preclaim assistance from a guarantor. This period begins 10 days prior and ends 10 days after the date established by the guarantor.

Prehearing Conference (as used in chapter 12): Contact by any method, including telephone, between the parties for the purpose of settling or narrowing a dispute related to Limitation, Suspension, and Termination proceedings.

Prepayment: A payment received when the borrower is not required to make either principal or interest payments; when a borrower is required to make interest payments, but previously authorized the lender to capitalize accruing interest; or when the borrower makes a payment that is greater than the amount of the borrower's regular installment or the amount due. See subsection 7.8.B. for more information on prepayments.

Principal Balance: The outstanding amount of the loan, on which the lender charges interest. As the loan is repaid, a portion of each payment is used to satisfy interest that has accrued, and the remainder of the payment is used to reduce the outstanding principal balance.

Professional Judgment: The flexibility given to a Financial Aid Administrator (FAA) under the Higher Education Act to make adjustments to student eligibility for federal aid on a case-by-case basis. See subsection 5.8.C.

Professional Student: See **Graduate or Professional Student**

Program of Study: A Department-authorized postsecondary educational program that leads to a degree, certificate, or other educational credential.

Program Participation Agreement: An agreement that a school and the U.S. Department of Education must sign, permitting participation in one or more of the Title IV student financial assistance programs. This agreement also states that the initial and continued eligibility to participate in the Title IV Student Financial Assistance Programs is conditional upon compliance with the provisions of applicable laws and program regulations. The agreement includes a school's participation in the following federal programs**:** Federal Pell, Federal Supplemental Educational Opportunity Grant, Federal Work-Study, Federal Family Education Loans, and Direct Loans.

Program Review: A comprehensive review of a lender's, school's, or servicer's administrative procedures for handling Federal Stafford, PLUS, SLS, and Consolidation loans. The review is conducted to ensure that those procedures are in compliance with federal regulations and with the guarantor' policies and procedures. Chapter 11 addresses several aspects of program reviews.

Promissory Note: A legally binding agreement the borrower signs to obtain a loan under the FFELP, in which the borrower promises to repay the loan, with interest, in periodic installments. The agreement also includes information about any grace period, deferment, or cancellation provisions and the student's rights and responsibilities with respect to the loan.

Proration: A reduction of the standard annual loan limit for an undergraduate student. Proration of the loan amount is required if the student's program or the remainder of the student's program is less than a full academic year in length.

Proportional Proration: Proration based on a straight percentage of the credits the student plans to take and the number of credits in the school's academic year.

Pro Rata Refund: The method by which a school must determine the amount it must refund to a first-year student who withdraws before completing at least 60% of the program in which the student was enrolled.

Reauthorization: Refers to the legislative process—generally carried out every 5 years in the case of the Higher Education Act—whereby Congress reviews and either renews, terminates, or amends existing programs. The most recent reauthorization of the Act, as amended, was in 1992.

Recall (of a claim): A lender request that the guarantor return a default claim that has already been filed before claim reimbursement because the claim no longer qualifies for default.

Recognized Equivalent of a High School Diploma: A recognized equivalent of a high school diploma is any one of the following:

- A General Education Development (GED) Certificate.
- A state certificate received by the student after passing a state-authorized examination recognized by the state as the equivalent of a high school diploma.
- The academic transcript of a student who has successfully completed at least a two-year program acceptable for full credit toward a bachelor's degree.
- For a student seeking enrollment in at least an associate degree program or its equivalent, who has not completed high school but has excelled academically at the high school level, documentation obtained by the participating school that the student excelled academically and has met the participating school's written policies for admitting such students.

Record: With respect to recordkeeping requirements for lenders and schools, official information or data relating to a borrower's loan account or file that can be used as evidence.

Refund: The difference between the amount the borrower paid toward institutional charges (including financial aid and/or cash paid) and the amount the school can retain under the appropriate refund policy. This "unearned" amount of institutional charges must be returned to student financial aid (SFA) programs on behalf of a student who received SFA funds and who has ceased attending school. See section 4.7.

Regular Student: A person enrolled or accepted for enrollment for the purpose of obtaining a degree, certificate, or other recognized educational credential.

Regulation B: The section of the Equal Credit Opportunity Act (12 CFR 202) that prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, or age.

Rehabilitation (of a defaulted loan): A process by which a borrower may bring a FFELP loan out of default by adhering to specified repayment requirements (see section 8.10).

Reinstatement (of borrower Title IV eligibility): A process by which a borrower with a defaulted FFELP loan may regain eligibility for Title IV aid by adhering to strict repayment requirements (see section 8.9).

Reinstatement (of institutional eligibility): Formal permission by the guarantor for a school, lender, or servicer whose eligibility to participate in the guarantor's programs has been terminated to resume participation after meeting specific conditions.

Release of Proceeds: Delivery of loan proceeds by the school to the borrower. Release of proceeds is not disbursement of proceeds by the lender. See Disbursement.

Repayment Period: The period during which payments of principal and interest are required. The repayment period follows any applicable in-school or grace period and excludes any period of authorized deferment or forbearance. See sections 7.4, 7.5, and 7.6 of chapter 7 for details on repayment.

Repayment Schedule: The legal addendum to the Promissory Note stating the terms of loan repayment and fulfilling disclosure requirements. The Repayment Schedule is a plan that indicates the total principal and interest due, an installment amount, and the number of installments required to pay the loan in full. The Repayment Schedule also contains the interest rate for the loan(s) included on the schedule, the due date of the first and subsequent installments, and the frequency of installments.

Repayment Start Date: The date the repayment period begins. For Stafford loans, repayment begins on the day following the last day of the grace period. For PLUS and SLS loans, repayment begins on the date the loan is fully disbursed. See section 7.4.

Repurchase (of a Claim): The lender's purchase back from the guarantor of a defaulted loan for which the lender has already been reimbursed by the guarantor.

Rolling Delinquency: A delinquency that occurs whenever the delinquent status of a loan is increased or reduced but not completely eliminated as result of a payment, the reversal of a payment, a deferment or forbearance, or the receipt of a new out-of-school date. See subsection 8.1.B.

Rule of 78s: A procedure for calculating the outstanding principal balance of a loan that is prohibited for loans made to a borrower who entered repayment on or after June 26, 1987. Seventy-eight is the sum of the digits from one to twelve (the number of months in a one-year installment contract).

SAR: See **Student Aid Report**

SAY: See **Scheduled Academic Year**

Satisfactory Academic Progress (SAP): The level of academic progress required of a student by the Higher Education Act in order to receive Title IV aid, including Federal Stafford, PLUS, or SLS loans. Each school must establish a standard for evaluating a student's efforts to achieve an educational goal within a given period of time. In making this evaluation, the school must establish the normal time frame for completion of the course of study in which the student is enrolled, and a method, such as grades or work projects completed, to measure the quality of the student's performance. Students who exceed one and a half times the normal time required to complete their academic program are not eligible for additional Title IV assistance for that period that is in excess of 150% of the academic period normally required.

Satisfactory Repayment Arrangement: A specified number of consecutive, on-time, voluntary, reasonable and affordable full monthly payments made by a borrower to the holder of any loan or loans in default. Satisfactory repayment arrangements may be established by a borrower either to regain eligibility for Title IV funds, to rehabilitate a defaulted loan, or to consolidate a defaulted loan. The loan holder's determination of a "reasonable and affordable" payment amount is based on the borrower's total financial circumstances. "Voluntary" payments are payments made directly by the borrower, and do not include payments obtained by tax offset, garnishment, or income or asset execution. An "on-time" payment is a payment received by the guarantor within 15 days before or after the scheduled due date. See subsection 5.2.E. and section 8.9 for more information on regaining eligibility for Title IV funds. See section 8.10 for more information on rehabilitating a defaulted loan. See section 9.2 for more information on consolidating a defaulted loan.

Scheduled Academic Year (SAY): The "fixed" academic period, as advertised in a school's printed materials, that generally begins and ends at the same time each year according to an established schedule. The SAY is the academic period to which the statutory definition of an Academic Year must be applied. Non-term-based institutions may not use an SAY. The summer term may be treated as an add-on at the beginning (leader) or end (trailer) of the SAY. For further discussion, see "Principles to Determine the Frequency for Annual Loan Limits" in the appendix to chapter 10 of *The Federal Student Financial Aid Handbook.*

School: A term in this manual that is used interchangeably with "Institution." See **Institution**.

School Lender: A school, other than a correspondence school, that has been approved as a lender under the FFELP and has entered into a contract of guarantee with the Department or a similar agreement with a guarantor.

Secondary Market: An entity that purchases education loans from eligible lenders in order to increase the amount of funds available for education loans. The secondary market obtains funds from investors and uses those funds to purchase existing education loans from lenders. The lenders then use the proceeds of those sales to make new education loans.

Separation Date: The date the student ceases to be enrolled on at least a half-time basis at an eligible school.

Servicer (or Third-Party Servicer): An entity that enters into a contract with a program participant to administer any aspect of its participation in a Title IV program.

Shortage Area: See **Teacher Shortage Area**

Skip Tracing: Diligent efforts to locate a borrower's telephone number or address when such information is unknown. See subsection 8.1.H. for telephone skip tracing requirements and 8.1.I. for address skip tracing requirements. See also **Normal Commercial Skip Tracing**.

Social Security Number (SSN): The 9-digit number assigned to the borrower by the Social Security Administration. The SSN is used as an identifier for tracking the borrower's loan account(s), skip tracing, and reporting to the Department. A borrower must have an SSN in order to apply for a FFELP loan.

Special Allowance: A percentage of the daily average unpaid principal balance, paid to a lender by the Department on an eligible Stafford, PLUS, SLS, or Federal Consolidation loan. Special allowance payments act as an incentive for lenders to make education loans by, in effect, making up the difference between the interest rate charged to a FFELP borrower and market interest rates. The special allowance rate is set by statutory formula. See section A.2 of appendix A.

Special Occurrence: An event—such as the lender's receipt of a borrower's valid address and/or valid telephone number—that affects the lender's due diligence requirements but does not change the payment due date of the loan.

Standard Repayment Schedule: A repayment schedule under which the borrower pays the same amount for each installment payment throughout the entire repayment period or pays an amount that is adjusted to reflect annual changes in the loan's variable interest rate. The Standard Repayment Schedule cannot exceed 10 years, excluding in-school, grace, deferment, or forbearance periods.

State: A state of the Union, the District of Columbia, the Commonwealth of Puerto Rico, American Samoa, Guam, the Trust Territory of the Pacific Islands, the Virgin Islands, and the Commonwealth of the Northern Mariana Islands.

State Lender: In any state, a single state agency or private not-for-profit agency designated by the state that has been approved as a lender and that has entered into a contract of guarantee with the Department or a similar agreement with a guarantor.

Statement of Educational Purpose: The borrower's signed statement that any Title IV aid received will be used only for education-related expenses at the school at which the student is enrolled or accepted for enrollment.

Statutory Interest Rate: The maximum annual interest rate (under the Higher Education Act) that a lender may charge on a loan. Past and present statutory interest rates for FFELP loans are included in subsections 6.1.D. and 6.1.F.

Student Aid Report (SAR): The student's need analysis report, which is generated by the Department's central processing system or MDE processor. The SAR summarizes information that the student reported on the FAFSA. An electronic version sent to the school is called an ISIR (Institutional Student Information Record).

Subrogation: A transfer in the ownership of a defaulted FFELP loan from a guarantor to the Department. Loans to be subrogated must meet criteria established and revised annually by the Department.

Subsidized Loan: A loan eligible for interest benefits paid by the federal government. The federal government pays the interest that accrues on subsidized loans during the student's in-school, grace, authorized deferment, and (if applicable) post-deferment grace periods, if the loan meets certain eligibility requirements.

Suspension: Suspension of the eligibility of a school, lender, or servicer to participate in a guarantor's programs for a specified period of time until specified requirements are met. See subsection 12.1.B.

T-Bill: See **Treasury Bill**

Teacher Shortage Area: A federally designated geographic area, grade level, or academic, instructional, subject matter, or discipline that has been classified as a shortage area as defined by the Department. See subsection 7.10.N.

Teach-Out Program: A program of study offered by a school that is substantially similar to a borrower's program of study at a school that closed and ceased to provide educational services during the borrower's loan period.

Telecommunications Course: A course offered during an award year that principally uses television, audio, or computer transmission, including open broadcast, closed circuit, cable, microwave or satellite, audio conferencing, computer conferencing, or video cassettes or discs. A course is not considered to be a telecommunications course if the course is delivered using video cassettes or discs unless that same course is also delivered to students who are physically attending classes at the school providing the course during the same award year.

Term-Based School: A school that uses standard academic terms, such as semesters, trimesters, or quarters.

Termination: Withdrawal of the eligibility of a school, lender, or servicer to participate in the guarantor's programs. See subsection 12.1.C.

Third-Party Servicer: In the case of a lender or guarantor, a state or private for-profit or nonprofit organization or an individual that enters into a contract with the lender or guarantor to administer any aspect of the lender's or guarantor's FFELP as required by statutory or regulatory provisions related to part B of Title IV of the Higher Education Act. In the case of a school, a state or private for-profit or nonprofit organization or an individual that enters into a contract with the school to administer any aspect of the school's participation in any Title IV program.

Three-Times Rule: The federal requirement that no single installment of a graduated or income-sensitive repayment schedule may be more than three times greater than any other installment.

Three Year Rule: The statutory provisions that a school loses its eligibility to participate in the FFELP if its cohort default rates exceed acceptable statutory levels for the three most recent consecutive fiscal years. The current acceptable level is a cohort default rate of less than 25%.

Title IV: A section of the Higher Education Act of 1965, as amended, that authorizes federal loan, work, and grant education financial assistance programs.

Totally and Permanently Disabled: The condition of an individual who is unable to work and earn money or attend school due to an injury or illness that is expected to continue indefinitely or result in death.

Trailer, Summer Term: A summer term that comes at the end of a school's Scheduled Academic Year.

Treasury Bill (T-bill): A note or bill issued by the U.S. Treasury as legal tender for all debts.

Unconsummated Loan: Loan proceeds that the school returned to the lender prior to the borrower's having cashed the check, if an individual check, or the school having applied the proceeds to the student's account, if included in a master check or EFT transmission. This includes checks that may have been released by the school but remain uncashed by the 120th day following disbursement and EFT and master check transactions that have not been completed by the 120th day following disbursement.

Undergraduate Student: A student who is enrolled at a school in a course of study, at or below the baccalaureate level, that usually does not exceed four academic years, or is up to five academic years in length and is designed to lead to a first degree.

Undue Hardship (Adversary Complaint) Petition: A motion to have a loan discharged in a bankruptcy case on the grounds of undue hardship. See subsection 8.2.D.

Unknown Telephone Number: The lack of any telephone number assigned to a particular borrower, endorser, or reference.

Unsubsidized Loan: A non-need-based loan such as an unsubsidized Federal Stafford loan or a Federal PLUS loan. The borrower is responsible for paying the interest on an unsubsidized loan during in-school, grace, and deferment periods, in addition to repayment periods.

U.S. Citizen or National: The term "citizen" includes all native or naturalized persons who owe allegiance to the United States and are entitled to protection by it. The U.S. includes the fifty states, the District of Columbia, Guam, Northern Mariana Islands, Puerto Rico, and the Virgin Islands. The term "national" includes all U.S. citizens and citizens of American Samoa and Swain's Island.

Variable Interest Rate: An interest rate that changes, usually annually, according to prescribed methods (see subsections 6.1.D. and 6.1.F.).

Variable Interest Rate Conversion: The conversion of a fixed interest rate to an annually variable interest rate, which carries a federally mandated cap.

Verbal Request: A request that is made orally, as opposed to in writing.

Verification: A school's procedure for checking the accuracy of information reported by the student on the FAFSA. Verification may include requesting a copy of the tax returns filed by the student and, if applicable, the student's parents. See section 5.6.

Week: A consecutive seven-day period in which:

- For an educational program using a semester, trimester, or quarter system or an educational program using clock hours, at least one day of regularly scheduled instruction, examinations, or preparation for examinations occurs.

- For an educational program using credit hours but not using a semester, trimester, or quarter system, at least 12 hours of regularly scheduled instruction, examinations, or preparation for examinations occur.

Weighted Average Cohort Rate: For a school that has former students entering repayment in a fiscal year on both FFELP and FDLP loans, the Department calculates a weighted average cohort rate. See section 10.2 for calculation formulas.
[§668.17(f)(1)]

Windfall Profits: Rebate of excess interest for Stafford loans first disbursed before July 1, 1992, or first disbursed to a new borrower on or after July 23, 1992, and before October 1, 1992, as required by the Technical Amendments of 1993. If a loan's fixed interest rate exceeds the current average of bond equivalent rates of 91-day Treasury bills plus a factor (3.25% or 3.10%) for a particular quarter, the lender must calculate an adjustment to excess interest and rebate the difference to the borrower's account based on a federally prescribed formula. See "Handling Excess Interest Rebates" in section 7.7, and section H.2 of appendix H.

Withdrawal Date: The date the student withdraws, as determined by the school.

Write-Off: A loan amount for which there has been a total cessation of collection activity.

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H History of Federal Education Loan Programs and the *Common Manual*

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H.1
History of Federal Education Loan Programs and the *Common Manual*

Today's education loan program is the result of a long evolutionary process that began with the enactment of the Higher Education Act in 1965. By law, the Act must be reviewed and reauthorized every 5 years, and the review often results in changes (amendments) to the law. Some reauthorizations have resulted in subtle changes; others have dramatically revised the program. Following is a chronology of milestones in the evolution of education loans. This information pertains to Federal Stafford (once called GSL) loans unless otherwise specified.

1965

November 8, 1965
The Higher Education Act of 1965 is signed into law. It provides an in-school interest subsidy of 5%, paid by the federal government for families with annual incomes less than $15,000. A 3% subsidy is paid for periods during which the loan is in repayment. Nonsubsidized loans are available for students in families with annual incomes of more than $15,000. The Act requires the periodic reexamination and reauthorization of its congressional mandate. Reauthorizations must occur every 5 years, or loans may no longer be made under the program.

1967

July 2, 1967
Annual loan limits are increased to $1,500. Aggregate loan limits are increased to $9,000.

August 10, 1967
Interest rates increase to 6% for families earning less than $15,000 in annual income; loans in repayment are subsidized at 3%. The guarantee amount is increased from 80% to 90% of unpaid principal and interest.

1968

August 3, 1968
Interest rates increase from 6% to 7% for families earning less than $15,000 annual income; loans in repayment continue to be subsidized at 3%.

October 16, 1968
Interstate lenders are permitted to make loans under the Federally Insured Student Loan Program (FISLP).

December 15, 1968
Subsidies for loans in repayment are eliminated.

1969

August 1, 1969
Special allowance is authorized for lenders to ensure they receive a market-rate yield on their student loans. Special allowance yields no more than 3% per year based on the outstanding principal balance of eligible loans.

1972

June 23, 1972
Amendments to the Higher Education Act are signed into law. The Student Loan Marketing Association (Sallie Mae) is authorized.

July 1, 1972
Interest subsidy is determined based on an evaluation of family income and resources (establishing a needs test).

August 18, 1972
Interest subsidy is reinstated for students whose families have annual incomes of $15,000 or less.

October 1, 1972
The maximum repayment period of 63 months is increased to 120 months.

1973

March 1, 1973
Eligibility for interest subsidy is determined by an evaluation of family income and resources; need analysis is required again.

June 1, 1973
Annual loan limits increase to $2,500 for third- and fourth-year undergraduate students and for graduate students. Loan limits are $1,000 for first-year students and $1,500 for second-year students. Aggregate limits increase to $7,500 for undergraduate students and $10,000 for graduate students (including undergraduate aggregates).

1974

June 2, 1974
Eligibility for interest subsidy is returned to students whose families have annual incomes of $15,000 or less. Need analysis is required for families earning more than $15,000 and for loan amounts exceeding $2,000.

Students enrolled at least half time, but less than full time, are eligible to receive student loans.

1976

March 1, 1976
Graduate students enrolled at least half time, but less than full time, may receive a student loan of up to $2,500.

October 1, 1976
New borrowers are eligible for a one-year unemployment deferment, which is subsidized if the borrower otherwise qualifies for interest subsidy. Disbursement checks must be endorsed by the borrower. Lenders may make checks copayable to both the borrower and the school. Multiple disbursement of loan funds is encouraged, and lenders are eligible to bill for interest benefits and special allowance on the full loan amount from the date of the first disbursement (even if the second disbursement was not made yet), provided the lender has signed a Multiple Disbursement Agreement with the Department.

October 12, 1976
Amendments to the Higher Education Act are signed into law, with provisions effective January 1, 1977.

November 12, 1976
For loan terms beginning on or after November 11, 1976, need analysis is required only for subsidized loans for borrowers whose families report adjusted gross incomes of $25,000 or more, regardless of the loan amount being requested.

1977

January 1, 1977
Special allowance is authorized for all loans disbursed between November 8, 1965, and August 1, 1969, for which balances remained outstanding. These loans are in addition to other loans previously considered eligible for special allowance.

May 20, 1977
For loan periods beginning on or after July 1, 1977, annual loan limits are increased to $2,500 for undergraduate students and $5,000 for graduate and professional students. Aggregate limits are increased to $7,500 for undergraduate borrowing and $15,000 for cumulative graduate and undergraduate borrowing.

September 30, 1977
Bankruptcy discharge of student loans is prohibited for the first 5 years after the borrower graduates or withdraws from school, unless the borrower proves that payment of the loan would present an undue hardship.

December 1, 1977
Special allowance payments become a derivative of the Treasury-bill formula, yielding no more than 5% annually based on a quarterly determination.

1978

November 1, 1978
All loans disbursed on or after November 1, 1978, qualify for interest benefits regardless of family income. Special allowance is paid on both the subsidized and nonsubsidized loans. The rehabilitation deferment is established for borrowers in rehabilitation training programs for disabled individuals.

November 6, 1978
The prohibition against the bankruptcy discharge of student loans that have been in repayment for less than 5 years is repealed.

1979

July 1, 1979
The annual cap on special allowance is eliminated. Yield floats with the Treasury-bill (T-bill) formula (T-bill plus 3.5%).

October 1, 1979
Bankruptcy Reform Act is effective. The prohibition against the discharge of a student loan in bankruptcy during the first 5 years of repayment is reinstated. Loans may be discharged in the first 5 years of repayment only if the repayment of the loan would present an undue hardship to the borrower.

1980

November 3, 1980
Education Amendments of 1980 are signed; provisions are effective January 1, 1981.

Special allowance paid on loans made or purchased with tax-exempt funds is reduced by half, effective for loans disbursed on or after October 1, 1980.

1981

January 1, 1981
The applicable interest rate is 9% for new borrowers with loan periods beginning on or after January 1, 1981. The grace period for 9% loans is 6 months.

Annual loan limits increase to $3,000 per year for independent undergraduate students, $2,500 for dependent undergraduate students, and $5,000 for graduate students. Aggregate loan limits are revised to $15,000 for independent undergraduate students, $12,500 for dependent undergraduate students, and $25,000 for graduate students (including undergraduate loans).

Deferments are authorized for medical internship or residency, service in a nonprofit agency, service as an officer in the Commissioned Corps of Public Health, and temporary total disability. Loans in deferment ending on or after January 1, 1981, are eligible for a 6-month post-deferment grace period.

Parental Loans for Undergraduate Students (PLUS loans) and Auxiliary Loans for Students (ALAS) loans are established with an applicable interest rate of 9%.

August 23, 1981
Effective for subsidized loans on which the lender provided the borrower's promissory note on or after August 23, 1981, an origination fee of 5% is assessed. The fee may be deducted from the loan's proceeds by the lender and must be paid to the Department quarterly via the ED Form 799.

October 1, 1981
Post-deferment grace periods are eliminated for loans first disbursed on or after October 1, 1981.

Need analysis is reinstated for borrowers with annual family incomes exceeding $30,000.

October 1, 1981
Annual loan limits are revised to remove the difference between independent and dependent borrowers. Limits of $2,500 and $5,000 apply for undergraduate and graduate students, respectively. Aggregate limits are $12,500 for undergraduate students and $25,000 for graduate students (including undergraduate loans).

The minimum monthly payment amount increases from $30 to $50 for loans first disbursed on or after October 1, 1981.

PLUS/ALAS interest rate increases to 14%. ALAS loan limits for undergraduate students permit an annual maximum of $2,500 through combined GSL and ALAS borrowing. Graduate and professional students may borrow up to $3,000 annually in ALAS, in addition to their $5,000 GSL maximum.

Nonsubsidized loans disbursed on or after October 1, 1981, are no longer eligible for special allowance. Special allowance for loans first disbursed on or after October 1, 1981, is calculated without rounding up to the nearest eighth of a percent.

1982

November 1, 1982
PLUS/ALAS interest rates are reduced to 12% for loans first disbursed on or after November 1, 1982.

1983

July 24, 1983
For students receiving Title IV funds on or after July 24, 1983, Selective Service Registration requirements must be met by the student to receive Title IV funds.

August 1, 1983
For applications certified on or after August 1, 1983, the financial aid administrator may not certify an application for any student unless the Statement of Registration Compliance is presented with the application.

August 15, 1983
PLUS borrowers with loans first disbursed on or after August 15, 1983, are not eligible for deferment of their loans.

September 13, 1983
The applicable interest rate for new GSL borrowers with loan periods beginning on or after September 13, 1983, is reduced to 8%.

1986

March 1, 1986
Loans first disbursed on or after March 1, 1986, and before October 1, 1986, are subject to the provisions of sequester. Origination fees are increased to 5.5% of the loan's principal balance. Lenders must collect a reduced special allowance for four consecutive reporting quarters beginning with the quarter in which the loan was first disbursed.

April 7, 1986
The Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1985 is signed into law.

GSL and ALAS disbursement checks must be mailed directly to the school. Schools must determine a student's eligibility for Pell Grant funding before certifying a GSL application.

The statutory default date is extended from 120 days delinquent to 180 days delinquent. Credit bureau reporting is required for all lenders and guarantors.

Guarantors must ensure that a Lender of Last Resort Program is available to borrowers in each state.

Consolidation loans are authorized to permit a borrower to combine multiple obligations into a single debt. The interest rate is the greater of 9% or the weighted average interest rate of the loans being consolidated, rounded to the nearest whole percent, effectively establishing a 9% minimum interest rate.

May 15, 1986
Schools, lenders, and guarantors are prohibited from certifying, approving or guaranteeing an application if the borrower advises that he or she has a student loan in default.

July 1, 1986
All GSL and ALAS loans first disbursed on or after July 1, 1986, must be multiply disbursed if the loan amount is $1,000 or more and there are more than 180 days remaining in the loan period after the date of first disbursement. The origination fee must be deducted proportionately from each disbursement of a GSL loan.

Students may not receive additional Title IV assistance if they have defaulted on a Title IV loan.

October 17, 1986
The Higher Education Amendments of 1986 are signed into law and reauthorize the program through 1991.

GSL applications are subject to uniform methodology and need analysis, regardless of family income.

The ALAS Program is replaced with the SLS Program. PLUS and SLS loans are to be administered under separate programs. The PLUS/SLS interest rate becomes a variable rate, not to exceed 12%. Multiple disbursements are no longer required for SLS loans. Borrowers may refinance PLUS or ALAS/SLS loans at the new variable interest rate. Parents may borrow PLUS funds for dependent undergraduate or dependent graduate students. The annual loan limit for PLUS or SLS is $4,000, with an aggregate maximum of $20,000. Interest accruing during in-school or other deferred periods on PLUS and SLS loans is payable in monthly or quarterly installments or may be capitalized no more frequently than quarterly.

Eligibility for an unemployment deferment is extended from 12 to 24 months for GSL, SLS, and PLUS loan borrowers.

Loans to borrowers attending foreign schools are exempt from multiple disbursement requirements.

Multiple disbursement requirements are revised. Lenders must disburse loans in two or more installments if the loan amount is more than $1,000 or if the loan period for which the loan is intended ends more than 180 days from the scheduled date of the first disbursement. The second disbursement may not be made before the midpoint of the enrollment period, except as necessary to coincide with the start of the next quarter, trimester, or semester.

The 15-year limit on the term of a GSL loan is eliminated.

Schools must perform exit counseling for all student borrowers.

Guarantors are required to pay the Department a reinsurance fee on loans guaranteed to help defray the cost of defaults.

November 16, 1986
Special allowance for loans with enrollment periods beginning on or after November 16, 1986, is reduced to the T-bill plus 3.25%.

December 26, 1986
Lenders must refund origination fees for disbursements on which the loan proceeds are returned or the disbursement is paid in full within 120 days of the date on which the funds are disbursed.

Schools must make refunds to students within 30 days of the date the school determines that the student is last enrolled at least half time.

Unemployment deferment requests must list three contacts and be reaffirmed every 3 months. An unemployment deferment may be backdated no more than 60 days from the date on which the lender receives the form. Other deferments may be backdated no more than 6 months from the date the lender receives the form.

Schools may credit a student's loan proceeds to his or her account no more than 21 days before the first day of the enrollment period for which the funds are intended. Checks may be released to the borrower no more than 10 days before the start of the enrollment period for which the funds are intended.

1987

January 1, 1987
Annual loan limits increase to $2,625 for the first two years of undergraduate study, $4,000 for any subsequent years of undergraduate study, and $7,500 for graduate study. Aggregate limits increase to $17,250 for undergraduate borrowing and $54,750 for combined undergraduate and graduate borrowing.

March 10, 1987
Lenders must provide a "Plain English Disclosure" to borrowers before disbursing loan funds for periods of enrollment beginning on or after January 1, 1987.

Lenders must file a bankruptcy claim no more than 30 days after learning that a borrower has filed for bankruptcy protection.

New due diligence requirements are effective for loans with a first day of delinquency on or after March 10, 1987.

June 3, 1987
The Higher Education Technical Amendments of 1987 are signed into law.

Disbursements for students attending foreign schools may be made directly to the borrower.

Multiple disbursement requirements are returned to previous levels, so that the lender must disburse any loan of $1,000 or more in two or more installments.

June 26, 1987
Interest may not be calculated on any loan entering repayment using the Rule of 78s.

July 1, 1987
New deferment provisions are introduced for "new borrowers" with loans made for periods of enrollment beginning on or after, or for loans disbursed on or after, July 1, 1987. Deferments are made available for periods of at least half-time enrollment (for borrowers with another GSL or SLS loan for the loan period for which they are applying for the deferment), temporary total disability of dependents or spouses, parental leave, and mothers entering or reentering the work force.

PLUS loans may be deferred based on the status of the dependent student for whom the parent has obtained a loan. All PLUS loans for that parent may be deferred based on the status of a single dependent student.

New PLUS loans disbursed for periods of enrollment beginning on or after July 1, 1987, are eligible for new deferment types: half time enrollment deferment if the parent or dependent student for whom the parent borrowed is enrolled at least half time, service in the NOAA, teacher shortage deferment, parental leave, and working mothers.

All loans are subject to a guarantee fee of no more than 3% of the principal balance, collectable by the guarantor.

Students must be enrolled in a degree or certificate program to receive GSL, SLS, or PLUS loan funds if the funds are intended for periods of enrollment beginning on or after July 1, 1987.

PLUS and SLS loans first disbursed on or after July 1, 1987, accrue interest at a variable rate that is subject to change each July 1. Lenders receive special allowance payments when the T-bill rate plus applicable factor exceeds 12%.

A student enrolled in a course of study that is a prerequisite to a degree or certificate program is eligible for one loan for a 12-month period. A dependent student is eligible for an SLS loan if the financial aid administrator determines that exceptional circumstances preclude the parent(s) from borrowing under the PLUS program.

October 20, 1987
GSL loans are placed under sequester. Origination fees are increased to 5.5% and special allowance yields are reduced for the first four reporting quarters following the one in which the loan was first disbursed.

December 26, 1987
The sequester action is rescinded retroactive to October 20, 1987. Lenders are required to refund to borrowers the additional 0.5% origination fee that was collected under the terms of the sequester.

1988

March 11, 1988
The Department publishes cure procedures for violations of due diligence or timely filing provisions.

July 1, 1988
The GSL program is renamed the Stafford Loan Program. Interest rates for "new borrowers" with Stafford loans first disbursed for periods of enrollment beginning on or after July 1, 1988, are 8% for the in-school and grace periods, and for the first 48 months of repayment. Interest rates increase to 10% on the first day of the 49th month of repayment. If the T-bill rate plus 3.25% is less than the applicable 10% rate, the lender is required to return (rebate) earnings to the borrower at the end of the year in which those "excess" earnings are received.

Lenders may no longer use the average quarterly balance in billing for special allowance or for interest benefits on ED Form 799.

July 18, 1988
Students enrolled at least half time in a teacher certificate program are eligible to borrow up to $4,000 per year in Stafford loans.

August 17, 1988
For loans on which the application is certified on or after August 17, 1988, schools must determine the applicant's eligibility for Pell Grants and Stafford loans before certifying an SLS application. If the borrower is eligible for a Pell Grant or Stafford loan, he or she must apply for it.

October 1, 1988
SLS loans first disbursed on or after October 1, 1988, must be multiply disbursed if the loan balance is more than $1,000 or the loan period ends more than 180 days after the date of the first loan disbursement.

SLS loan repayment begins no more than 60 days after the date the loan is fully disbursed.

1989

July 20, 1989
Schools must make refunds within 60 days of the date the school determines that the student has dropped to less than half-time attendance.

Schools with cohort default rates of more than 30% must delay delivery of loan funds to new borrowers for at least 30 days following the first day of the period of enrollment for which the loan is intended.

August 24, 1989
Schools must provide entrance counseling for all first-time borrowers.

October 1, 1989
Loans first disbursed on or after October 1, 1989, but before January 1, 1990, are subject to sequester. Origination fees of 5.5% must be paid to the Department, and special allowance is reduced for the first four reporting quarters, beginning with the quarter in which the loan was first disbursed.

November 21, 1989
Department of Labor, Health and Human Services, Education, and Related Agencies Appropriations Act of 1990 is signed into law.

Schools with default rates exceeding 30% must implement a pro rata refund policy for all Title IV aid recipients.

December 19, 1989
The Omnibus Budget Reconciliation Act of 1989 (OBRA) is signed into law.

Schools must withhold and return to the lender any disbursement exceeding the amount of the assistance for which the student is eligible. Provisions are applicable to Stafford and SLS loan proceeds not delivered to students as of December 19, 1989, for periods of enrollment beginning on or after January 1, 1990.

Schools must delay the delivery of SLS proceeds to first-time borrowers who are first-year students until 30 days after the start of the loan period for which they are intended.

For loans delivered on or after December 19, 1989, for periods of enrollment beginning on or after January 1, 1990, schools may not deliver late first disbursements of SLS proceeds if the student did not complete the first 30 days of the enrollment period for which the funds are intended.

December 19, 1989 (continued)
For disbursements made on or after December 19, 1989, for loan periods beginning on or after January 1, 1990, late second disbursements of Stafford and SLS loans are prohibited.

1990

January 1, 1990
Individuals serving in medical internships and residencies, except those serving in dental programs, are ineligible for in-school deferments. Lenders must grant forbearance to interns and residents. Borrowers may no longer borrow Stafford or SLS loans for enrollment in an internship or residency program.

Lenders must delay the disbursement of SLS funds. Annual loan limits for SLS loans are reduced for first-time borrowers.

For loans guaranteed on or after January 1, 1990, lenders must make Stafford and SLS loans in multiple disbursements, regardless of the loan amount or the length of the period of enrollment for which the funds are intended.

Lenders must use the newly revised ED Form 799 to file for special allowance and interest benefits, pay origination fees, and provide information that previously was included in the annual Call Report. Any filing for benefits on or after January 1, 1990, must be on the new form and in the new format, regardless of the quarter for which it is applicable.

Schools with cohort default rates of 30% or more may no longer certify SLS loan applications.

SLS annual loan limits of $4,000 are restricted to periods of one academic year or 9 months, whichever is longer. SLS annual limits are prorated at $2,500 for borrowers who attend at least two-thirds of an academic year but less than a full academic year; $1,500 for borrowers who attend between one-third and two-thirds of an academic year; and to $0 for borrowers who attend less than one-third of an academic year.

March 1, 1990
For loans certified on or after March 1, 1990, with loan periods beginning on or after January 1, 1990, schools must determine the disbursement dates for the loans, and lenders may not disburse funds before the first date on which the school has requested disbursement of the funds.

June 5, 1990
Schools with cohort default rates of 30% or more must institute a pro rata refund policy.

November 5, 1990
The Omnibus Budget Reconciliation Act (OBRA) of 1990 is signed into law.

The minimum loan period for SLS loans is reduced to 7 months or the length of the school's academic year, whichever is longer.

For delinquencies beginning on or after November 5, 1990, guarantors must provide preclaim assistance on accounts that are less than 120 days delinquent and must provide supplemental preclaim assistance (SPA) on loans that are more than 120 days delinquent. The Department compensates the guarantor for each loan on which SPA is requested and for which the default claim is not filed within 150 days.

Student loans are determined to be nondischargeable for borrowers filing for protection under Chapter 7 or 13 bankruptcy within 5 years of the date the loan entered repayment, excluding periods of deferment and forbearance.

1991

January 1, 1991
Schools must delay for 30 days the release of Stafford loan funds to borrowers who are entering the first year of an undergraduate program and who have not previously obtained a Stafford or SLS loan.

Students applying for Title IV funds must have a high school diploma or GED, or must pass an independently administered ability-to-benefit test for periods of enrollment beginning on or after January 1, 1991.

April 9, 1991
Military personnel serving in Operations Desert Shield/ Desert Storm are authorized to receive a 6-month post-deferment grace period following either a period of military deferment, or a period of in-school deferment if the borrower previously received a military deferment for such service. This one-time benefit is available for the period from April 9, 1991, to September 30, 1997.

The statute of limitations for enforcement of guaranteed student loans is eliminated.

May 28, 1991
Student loans that are in repayment for 7 years or less from the date the loan first entered repayment through the date of a bankruptcy action—excluding periods of deferment and/ or forbearance—are considered to be nondischargeable under bankruptcy provisions.

July 1, 1991
Schools with cohort default rates of 35% or more for the most recent three fiscal years for which rates are available are ineligible to participate in the GSL Program. In Fiscal Year 1993, the rate drops to 30%.

November 15, 1991
The Emergency Unemployment Compensation Act of 1991 is signed into law. However, provisions are never enforced based on guidance received from the Department, pending regulations. The Higher Education Amendments of 1992 later repeal all but two provisions applicable to student loans.

1992

July 23, 1992
The Higher Education Amendments of 1992 are signed into law. The GSL Program is renamed the Federal Family Education Loan Program (FFELP). The Stafford Loan Program is renamed the Federal Stafford Loan Program, the SLS Program is renamed the Federal SLS Program, and the PLUS Loan Program is renamed the Federal PLUS Loan Program.

The annual loan limit on Stafford loans of $2,625 for the first year of full-time undergraduate study must be prorated for some students. Aggregate loan limits are revised to $23,000 for undergraduates and $65,500 for graduate students (including undergraduate loans). These provisions became effective October 1, 1992.

Annual loan limits for SLS loans of $4,000 for first- and second-year full-time enrollment must be are prorated for some students. Aggregate loan limits are revised to $23,000 for undergraduate borrowing and $73,000 for combined graduate and undergraduate borrowing. These provisions became effective October 1, 1992.

Lenders must rebate excess interest on Stafford loans first disbursed at a fixed rate on or after July 23, 1992, regardless of that rate. Rebates to "new borrowers" with loans at the 8%/10% rate are applicable when the T-bill rate plus 3.25% is less than the applicable interest rate. Rebates are applicable for the new 8%/10% loan only when the loan reaches the 10% accrual period. For loans first disbursed to borrowers with outstanding loans on or after July 23, 1992, the rebate is applicable when the T-bill rate plus 3.10% is less than the loan's applicable interest rate. For second or subsequent loans first disbursed at 8%/10% on or after July 23, 1992, the rebate is applicable both to the 8% period and the 10% period.

The lender may not bill for interest on a subsidized Stafford loan that is disbursed by check earlier than 10 days before the first disbursement of the loan or earlier than 3 days before the first disbursement of funds by EFT. In this case only, the term "disbursement" is intended to mean delivery to the borrower.

Borrowers must be notified of the sale or transfer of their loan to another holder or servicer no more than 45 days from the date the new holder or servicer obtains legal right to receive payments on the loan. Specifically defined information must be included in notices to the borrower, and the notice must be provided by both the seller and holder, or by the previous servicer and new servicer.

Lenders must perform a credit check on PLUS loan applicants and may not make loans to borrowers determined to have adverse credit unless they determine that mitigating circumstances apply.

Guarantors must require an annual compliance audit from each lender in the FFELP. The lender's first audit under this requirement is to have covered the lender's first fiscal year that began after July 23, 1992. Submission of the audit report is required within six months after the end of the audit period.

Borrowers participating in medical internship or residency programs may request and the lender must grant a period of forbearance when the borrower has expended his or her entire deferment period for internship or residency.

Lenders may extend forbearance on loans without a borrower's request (grant administrative forbearance) in prescribed instances, such as a period of delinquency preceding an authorized period of deferment.

Lenders may not sell or transfer ownership of a loan that is not yet fully disbursed if the transaction would cause a change in the party to which the borrower will send payments.

The $600 joint minimum annual payment amount for married couples is deleted. A new clause advises that the minimum payment is the amount of interest that is due and payable.

Lenders must offer to borrowers who have both Stafford and SLS loans the option of deferring the repayment start date of the SLS loans to coincide with the repayment start date of the Stafford loans. Interest on the SLS loans continues to accrue and is payable by the borrower in monthly or quarterly installments, or may be capitalized.

July 23, 1992 (continued)
All guarantors must provide for the rehabilitation of defaulted loans by the borrower's making 12 consecutive, on-time, reasonable and affordable payments. In addition, the borrower's defaulted loans must be purchased by an eligible lender.

A borrower may have his or her eligibility for additional Title IV funding reinstated if the borrower makes six consecutive, on-time, reasonable and affordable payments on his or her loan.

Loans may be forgiven if the school falsely certified the loan application or if the school for which the borrower obtained the loan closed before the borrower's program of study was complete.

The Department is authorized to regulate third-party servicers.

A program to encourage superior servicing performance for lenders, servicers, and guarantors is initiated. For lenders and servicers that receive an exceptional performer designation, guarantors pay 100% of the principal and interest due on loans filed as claims during the period the lender or servicer is designated. Lenders or servicers are not penalized for inadvertent omissions of due diligence or timely filing violations. For guarantors designated as exceptional performers, the Department pays 100% of the applicable rate payable on loans filed for reinsurance during the period the guarantor is designated (note that criteria for exceptional performers are not defined in regulation until July 1995).

The Department, in cooperation with industry participants, is required to develop common loan applications and promissory notes, deferment forms, and reporting formats.

The Department is required to develop regulations from these amendments in a negotiated rulemaking process with the student loan industry and other interested participants.

October 1, 1992
Interest rates on Stafford loans are revised to a variable interest rate based on the 91-day T-bill rate plus 3.1%, capped at 9% for loans first disbursed to new borrowers who have no outstanding balance on any FFELP loan on or after October 1, 1992. Interest rates on SLS loans are revised to a variable rate, calculated at the 52-week T-bill rate plus 3.1%, capped at 11%. Interest rates on PLUS loans are revised to a variable rate based on the 52-week T-bill plus 3.1%, capped at 10%. PLUS disbursement checks must be made copayable or disbursed by EFT.

Effective for periods of enrollment beginning on or after October 1, 1992, unsubsidized Stafford loans are authorized with provisions paralleling those for subsidized Stafford loans, except that interest during in-school, grace, and deferred periods is not paid by the Department. The program provides loans for students who do not qualify for a subsidized Stafford loan or who qualify for only a part of the annual subsidized loan amount. Borrowers pay a combined origination fee/guarantee fee of 6.5%, all of which is paid to the Department. Guarantors are prohibited from collecting guarantee fees on unsubsidized Stafford loans.

For loans first disbursed on or after October 1, 1992, lenders may not bill the Department for interest or receive interest benefits or special allowance payments on loans for which the disbursement check is not cashed or the funds delivered by EFT are not delivered to the student within 120 days of the date of disbursement. Such loans are considered unconsummated.

Lenders must charge SLS and PLUS loan borrowers an origination fee of 5% on all loans with first disbursements on or after October 1, 1992, with the fee being deducted proportionally from each loan disbursement.

PLUS loans must be disbursed by EFT or by a check that is copayable to the borrower and the school and must be sent to the school. The school must confirm the eligibility of the dependent student for whom the parent is borrowing before delivering the funds.

1993

January 1, 1993
Married couples may consolidate their loans into a single Consolidation loan if they agree to be jointly and severally liable for the obligation, regardless of future marital status. Effective for applications received on or after January 1, 1993, the Consolidation minimum loan amount is increased to $7,500 and periods during which the borrower qualifies for a deferment are subsidized.
A Consolidation loan borrower may add other eligible loans to a preexisting Consolidation loan for a period of up to 180 days from the date the Consolidation loan is made.

Lenders must offer Consolidation loan borrowers the option of repaying their loans with graduated or income-sensitive repayment provisions.

February 1, 1993
Provisions for loans made or purchased with tax-exempt obligations are modified.

July 1, 1993
Stafford annual loan limits are revised to $3,500 for the second year of study.

SLS annual loan limits for subsequent years of undergraduate enrollment (beyond the second year) are increased to $5,000 effective July 1, 1993. Annual limits for graduate and professional students are $10,000.

Annual limits for PLUS loans are revised to the cost of attendance minus other aid, effective for loans first disbursed on or after July 1, 1993. Aggregate loan limits are effectively negated.

For new borrowers on or after July 1, 1993, deferments are limited to in-school (including periods during which the borrower is enrolled at least half time), graduate fellowship or rehabilitation training, unemployment (not to exceed 36 months), and periods during which the borrower is experiencing economic hardship that would preclude making student loan payments.

For PLUS loans first disbursed to "new borrowers" on or after July 1, 1993, borrowers may no longer defer their PLUS loan based on the status of the dependent student.

For fiscal year 1993, schools with default rates exceeding 30% for the three most recent fiscal years for which data is available are not eligible to participate in the FFELP. For subsequent years, the default rate may not exceed 25%.

Lenders must offer new SLS and Stafford loan borrowers graduated or income-sensitive repayment schedules.

August 10, 1993
The Student Loan Reform Act of 1993, a part of the Omnibus Budget Reconciliation Act, is signed.

The Federal Direct Loan Demonstration Program authorized under the Higher Education Amendments of 1992 is replaced with an expanded pilot.

Consolidation loans made from applications received on or after August 10, 1993, are eligible for interest subsidy during authorized periods of deferment only if all underlying loans are subsidized Stafford loans.

October 1, 1993
Stafford loan limits are increased to $8,500 for graduate and professional students.

Lenders must pay a 0.5% fee for all FFELP loans disbursed on or after October 1, 1993. This fee may not be passed on to the borrower.

Lenders of Consolidation loans must pay the Department monthly consolidation fees of 1.05% of the total outstanding loan balance of Consolidation loans (principal and interest) made on or after October 1, 1993. This fee may not be passed on to the borrower.

PLUS loans first disbursed on or after October 1, 1993, must be multiply disbursed under the same conditions as SLS loans.

Loans first disbursed on or after October 1, 1993, are insured at 98% of the principal and outstanding interest filed as a claim by the lender and are reinsured at a maximum of 98% of the principal and interest filed with the Department by the guarantor.

The reinsurance fee paid by guarantors to the Department is eliminated for loans first disbursed on or after October 1, 1993.

1994

July 1, 1994
Interest rates for Stafford loans first disbursed on or after July 1, 1994, are variable rates, calculated at the T-bill rate plus 3.10%, capped at 8.25%. Stafford loan interest rates for "repeat borrowers" are no longer tied to the rate at which the borrower previously received his or her loan.

The Federal SLS Loan Program is eliminated. As a result, independent undergraduate students (and dependent students whose parents are unable to obtain PLUS loans) are offered additional unsubsidized Stafford loan eligibility equal to the prior SLS annual and aggregate loan limits.

Loan limits for unsubsidized Stafford loans for independent students (and students whose parents are unable to receive a PLUS loan) are increased to $6,625 for first year enrollment (a $4,000 increase), $7,500 for second year enrollment (a $4,000 increase), and $10,500 for subsequent years of undergraduate enrollment (a $5,000 increase). Graduate annual loan limits are increased to $18,500 (a $10,000 increase). Borrowers are eligible for these increased limits to the extent that they exceed the amount of funds received under the subsidized Stafford Loan Program.

Interest rates for PLUS loans are revised to the T-bill rate plus 3.1%, capped at 9%.

Origination fees for all FFELP loans first disbursed on or after July 1, 1994, are 3%. Guarantors are prohibited from collecting guarantee fees exceeding 1%. The combined origination/guarantee fee for unsubsidized Stafford loans is revoked.

July 1, 1994 (continued)
Consolidation loans are no longer subject to a minimum loan amount. Repayment schedules for loans with original balances of less than $7,500 may not exceed 10 years. The annual interest rate for Federal Consolidation loans made on or after July 1, 1994, and for which the lender received the consolidation application prior to November 13, 1997, is the weighted average rate of all loans included in the consolidation rounded up to the nearest whole percent. The 9% minimum annual interest rate is no longer applicable.

October 20, 1994
President Clinton signs into law (P.L. 103-382) the Improving America's School Act of 1994, which changed the record retention requirements for schools.

All required records relating to a student or parent borrower's eligibility for, and participation in, the FFELP must be kept for 3 years after the end of the award year in which the student last attended the school. An award year is the period between July 1 of a given calendar year and June 30 of the following calendar year. In addition, a school must keep copies of all reports (such as its SSCRs) and forms used by the school to administer FFELP loans for 3 years after the end of the award year in which those records were submitted. Any records relating to a loan, claim, or expenditure questioned in an audit, program review, investigation, or other review must be retained until the later of the resolution of the question or the end of the retention period applicable to the record. Schools are encouraged to keep records longer than the minimum 3-year period to aid in their defense of cohort default rate appeals, claims of false certification, or other borrower defenses. These requirements are effective for any record that meets the 3-year retention requirement on or after October 20, 1994.

1995

March 1995
The Department publishes an audit guide on annual compliance audits. The following provisions are included in the initial instructions published with the audit guide for lenders:

- For initial audits, a lender with a fiscal year ending July 23 through December 31 is required to choose between having separate audits for fiscal years 1993 and 1994 or a combined audit for the two years.

- The initial audit for a lender with a fiscal year ending January 1 through July 22 must cover fiscal year 1994.

- A lender with a fiscal year ending January 1 through March 31 may choose to have a combined initial audit for fiscal years 1994 and 1995.

July 1, 1995
Leave of absence provisions are reinstated, but are limited to no more than a 60-day period. The student is considered to be enrolled for purposes of enrollment verification and refunds. For a one-year period—July 1, 1994, through July 1, 1995—students in an approved leave of absence were considered to be withdrawn for purposes of calculating refunds and determining continuous in-school status. For deferment purposes, students were considered to have remained enrolled during the leave.

Lenders may offer a postponement of repayment start on SLS loans that is consistent with the grace on a borrower's Stafford loan. Previously, borrowers with both Stafford and SLS loans entering repayment could postpone the beginning of their SLS repayment only for 6 months without requesting a forbearance for the additional months that coincided with their Stafford grace period.

Eligibility criteria for the economic hardship deferment are revised.

Borrowers who have had previous FFELP loans discharged in bankruptcy are no longer required to reaffirm the old debt to be eligible to borrow additional FFELP funds.

A PLUS loan applicant with adverse credit history may obtain a creditworthy endorser to receive a PLUS loan.

Interest and special allowance rates on Stafford loans are revised; lenders earn interest at one rate (T-bill plus 2.5%) during in-school, grace, and deferred periods, and a higher rate (T-bill plus 3.1%) during periods of repayment.

Regulations require that deferments be administered as borrower-specific provisions so that the borrower may use those deferment entitlements on which time limits are placed only for the maximum time frame on all their FFELP loans, regardless of when those loans are made. Thus, a borrower who receives a loan and defers it based on internship for 20 months, then takes a second loan, is eligible for only 4 months of internship deferment on that second loan.

Loans on which origination fees are not paid promptly by the originating lender are deemed to be nonreinsured. The lender or holder may not collect interest benefits or special allowance on the loan.

July 1, 1995 (continued)
Exceptional performer criteria are defined, permitting some lenders and lender servicers to obtain a performance rating that will result in their receiving 100% reimbursement on claims submitted—regardless of the disbursement date of the loans included in that claim.

September 30, 1995
A lender must complete its initial audit (or audits) by September 30, 1995. If the lender is required to submit an audit report, the report must have been submitted to the Department by September 30, 1995. The deadline for the completion of the audit is extended to June 30, 1996, for any audit period in which a lender originated or held FFELP loans totaling $5 million or less.

November 29, 1995
The Department publishes final regulations on the Equity in Athletics Disclosure Act, effective July 1, 1996.

December 1, 1995
The Department publishes final regulations on default prevention, parity with the FDLP, the Student Right-To-Know Act, regulatory reform, and ability-to-benefit, effective July 1, 1996.

1996

April 1, 1996
The *Common Manual—Unified Student Loan Policy*, which contains both federal and guarantor policies, is adopted by 23 guarantors.

July 1, 1996
The defaulted loan of a student who attended and borrowed at more than one school is attributed to the respective school at which the student received a loan that entered repayment for the fiscal year. A weighted average cohort default rate is required for schools with borrowers entering repayment in both FFELP and FDLP in the same fiscal year; the formula used to calculate the rate depends on the type of school and the number of students entering repayment. Rehabilitated FFELP or FDLP loans are not considered to be in default for purposes of cohort default rate calculations. "Enclosure B," which outlines cohort default rate appeal procedures, is renamed the "Official Cohort Default Rate Guide." Schools are no longer required to notify the Department of their intent to appeal cohort default rates. The criteria for appealing a school's cohort default rate were expanded.
A school's CEO must provide a certification, under penalty of perjury, that all information submitted by the school in support of its cohort default rate appeal is true and correct.

For a cohort default rate appeal based on exceptional mitigating circumstances, a school must submit an independent auditor's opinion regarding the CEO's assertion that the information contained in the school's appeal is complete and accurate. Implementation of a default management plan or Appendix D is no longer a requirement for schools with cohort default rates greater than 20%.

Implementation of Appendix D may not be used as a defense to loss of eligibility for schools with FFELP cohort default rates greater than 40%. A school will lose FFELP eligibility 30 calendar days after the date it receives notification that its three most recent cohort default rates are 25% or greater—unless an appeal is filed. Limitation, suspension, and termination actions may be taken against a school with any combination of a FFELP, FDLP, or a weighted average cohort default rate that is equal to or greater than 25%.

A school is prohibited from charging a fee for completing or certifying any FFELP document or for providing any information necessary to receive a FFELP loan or program benefit.

Foreign schools must comply with federal regulations, unless exempted by the Department.

Beginning with the 1996–97 award year:

- Schools must disclose completion/graduation and transfer-out rates to current and prospective students.
- Schools may access the NSLDS to obtain financial aid transcript data.
- The Statement of Educational Purpose has been added to the FAFSA.

Correspondence schools are no longer required to provide prospective students with a schedule for submission of lessons for courses of study beginning on or after July 1, 1996.

The following changes apply to loans certified for periods of enrollment beginning on or after July 1, 1996:

- A stepparent is eligible for a PLUS loan if the stepparent's income and assets have been taken into account when calculating a dependent student's EFC.
- Once a prorated loan amount has been certified, the school need not recalculate the borrower's eligibility if the number of hours for which the student is enrolled changes.

July 1, 1996 (continued)

- The Department will perform a data match with the Social Security Administration to confirm claims of U.S. citizenship made on the FAFSA.
- Secondary confirmation of an applicant's eligible noncitizen status is not required if the status was confirmed in a previous award year or if the school does not have conflicting information or reason to believe that the applicant's claim of citizenship is incorrect.
- The Department will conduct a data match with the Selective Service to verify a male student's registration status.
- If a parent is denied a PLUS loan due to adverse credit, this denial can be considered "exceptional circumstances." Only one parent need be denied a PLUS loan for a dependent student to be eligible for an additional unsubsidized Stafford loan; however, if either of the student's parents subsequently becomes eligible for a PLUS loan, future disbursements of the additional unsubsidized Stafford loan must be canceled.
- For purposes of determining if a borrower's aggregate loan limit is exceeded, certain assumptions about the underlying Stafford loans (subsidized vs. unsubsidized) in a Consolidation loan may be made.

The following changes apply to loan applications certified for the 1996–97 award year and thereafter:

- Ability-to-benefit (ATB) students may receive Title IV funds if they obtain passing scores on independently administered tests approved by the Department; obtain passing scores on Department-approved state tests; or enroll in schools that participate in state processes that have been approved by the Department.
- Students who enroll in service academies but withdraw before graduating (under any circumstances except a dishonorable release) are considered veterans for purposes of determining dependency status.
- The Department will conduct a data match with the Social Security Administration to verify the social security number a student provides on the FAFSA.

The following changes apply to loan applications certified on or after July 1, 1996:

- Schools have the option to certify a PLUS application before the FAT or equivalent data is received.
- A school may certify a loan for the entire academic year in which a borrower regains Title IV eligibility after default.

The following changes apply to funds credited to the student's account on or after July 1, 1996:

- A school may use Stafford or PLUS loan proceeds to pay minor prior-year charges that do not exceed $100; loan proceeds can be applied to prior-year charges that exceed $100 if doing so will not prevent the student from paying his or her current year costs.
- When a school notifies a borrower by electronic means that loan funds were credited to the student's account, the borrower must confirm receipt of that notice.

A school must pay refunds to lenders within 60 days of the date that the student withdraws or is expelled. If a student does not return to school at the expiration of an approved leave of absence, the refund must be sent within 30 days of the date the leave of absence expires or the student notifies the school that he or she will not be returning, whichever is earlier. This applies to refunds for students who withdraw, are expelled, or do not return from leaves of absence on or after July 1, 1996.

If a lender makes a late disbursement 61–90 days after the borrower is no longer enrolled at least half-time, it is the school's responsibility to determine and document that exceptional circumstances exist. This applies to loan funds delivered by the school on or after July 1, 1996.

Schools must retain any records related to unresolved audits that begin or are in progress on or after July 1, 1996.

Upon request, a school must promptly provide the Department, a lender, or a guarantor with any information it has regarding the address, name, employer, and employer address of any borrower who attends or has attended the school. This applies to changes reported to the school by the student or another reliable source on or after July 1, 1996.

July 1, 1996 (continued)

For deferment and enrollment status reporting purposes, if a student does not return for the next scheduled term following a summer break or summer bridge deferment, the school must determine the student's withdrawal date within 30 days after the first day of the next scheduled term. This applies to scheduled terms that begin on or after July 1, 1996, for students who fail to return from a summer break.

If a borrower files for bankruptcy, a lender should not make any disbursement on any loan applied for and approved before the borrower's bankruptcy filing. Any funds disbursed but not yet delivered by the school should be recalled. Loans scheduled to be disbursed after the date of the bankruptcy filing should be canceled. These changes apply to disbursements made on or after July 1, 1996.

A lender must refund a prorated portion of the guarantee and origination fees to the borrower's account if a loan or a portion of a loan is returned by the school to the lender on or after July 1, 1996. Lenders are encouraged to use a standard refund formula.

A lender who establishes a first payment due date on a FFELP loan that is later than the regulated time frames risks losing the loan's guarantee. The first payment due date for a Stafford loan or an SLS loan may be extended for up to an additional 30 days if an extension is necessary for the lender to comply with the requirement that the payment disclosure be sent to the borrower no less than 30 days before the first payment is due. These changes apply to loans that enter or re-enter repayment on or after July 1, 1996.

A lender may apply an administrative forbearance if a borrower requests repayment alignment of his or her Stafford and SLS loans. To align repayment of Stafford and SLS loans, the borrower need only have one Stafford loan that has not yet entered repayment. The length of the postponed SLS repayment period is determined by the Stafford loan with the longest applicable grace period. These changes apply to loans that are eligible for repayment alignment on or after July 1, 1996.

A lender may credit an entire payment first to any late charges or collection costs, then to any outstanding interest, and then to outstanding principal. Unless the borrower requests otherwise, a payment that equals or exceeds the regularly scheduled payment amount must be applied to future installments. A borrower's due date may be advanced if the payment received is within $5.00 of the amount due; this tolerance cannot be applied to a curing payment. These changes apply to payments received on or after July 1, 1996.

Lenders are strongly encouraged to wait until a borrower is at least 60 days delinquent before reporting a delinquency to a credit bureau. This applies to credit bureau reporting on or after July 1, 1996.

An endorser is released from his or her repayment obligation if (1) the borrower dies or (2) on or after July 23, 1992, the student for whom a parent received a PLUS loan dies, or (3) the loan is discharged for any other reason. This applies to death certificates received by the lender on or after July 1, 1996.

A borrower who has defaulted on a loan is not eligible for a deferment unless the borrower makes payment arrangements acceptable to the lender to resolve the default prior to payment of the default claim by the guarantor. This applies to deferment requests received by the lender on or after July 1, 1996.

To obtain an unemployment deferment, a borrower may provide the titles (in lieu of the names) of the six persons contacted in an attempt to secure employment. This applies to unemployment deferments granted by the lender on or after July 1, 1996.

A lender may grant an administrative forbearance to a borrower to cover any period of delinquency that exists after the close of a period of deferment or mandatory forbearance. This applies to all deferments and mandatory forbearances with end dates on or after July 1, 1996.

A borrower may consolidate defaulted loans by agreeing to repay the Consolidation loan under an income-sensitive repayment schedule. This applies to Consolidation loan applications received on or after July 1, 1996.

A lender must give the borrower 30 days from the date the final demand letter is mailed to repay principal and interest, plus interest and special allowance paid by the Department, on any portion of a loan that is ineligible. This applies to final demand letters mailed on or after July 1, 1996.

Any period of administrative forbearance that is applied in conjunction with a cure period must be included in the calculation of the 7-year repayment period for the purpose of determining dischargeability of a loan in bankruptcy. If a bankruptcy claim is not filed in a timely manner, a lender need not perform cure activities and may consider a loan to have regained reinsurance if the lender is resuming servicing after receiving notice that the loan was not discharged in bankruptcy or that the action was reversed or dismissed. These changes apply to bankruptcy notifications received by the lender on or after July 1, 1996.

July 1, 1996 (continued)
Within 30 days of receiving payment of a disability discharge claim, the lender is required to return to the sender any payments received from, or on behalf of, a borrower after the date a physician certifies that the borrower is totally and permanently disabled. This applies to total and permanent disability claims filed by the lender on or after July 1, 1996.

For a nondefault claim, the guarantor purchases all interest that accrues from the interest-paid-through date through the date the guarantor pays a claim (if the lender does not incur any penalties for due diligence violations or for failure to meet timely filing or refiling deadlines). This applies to claims received by the guarantor on or after July 1, 1996.

Resubmission of a claim on the 31st day through the 60th day, inclusive, after the guarantor returns the claim to the lender will result in loss of eligibility for interest, interest benefits, and special allowance payments beyond the 30th day after the return. This applies to returned claims received by the lender on or after July 1, 1996.

Dear Colleague Letter 96-G-287/96-L-186 lifts the Department's waiver of enforcement of the lender due diligence provisions in 34 CFR 682.411, published in the December 18, 1992, *Federal Register* and clarifies policy changes pertaining to lender due diligence. These changes are enforced for loans on which the first day of delinquency on the "oldest outstanding due date" is after July 1, 1996. The "oldest outstanding due date" is the date from which the current 180-day due diligence counter is based and is sometimes referred to as the "latest," "current," or "next" due date. The following provisions are included:

- Permits lenders to substitute forceful collection letters for telephone contacts with borrowers who are incarcerated or live outside a state, Mexico, or Canada.

- Codifies the Dear Colleague Letter 88-G-138 rule to set the first due date within 45 days or within 75 days for late notification or early withdrawal.

- Replaces 30-day buckets with new due diligence windows of 1–10 days delinquent and 11–180 days delinquent.

- Requires a final demand letter—which gives the borrower 30 days to bring the loan out of default—on or after 151st day of delinquency (was day 151–180). This change will be enforced for loans on which the first day of delinquency on the oldest outstanding due date is after July 1, 1996. An exception is permitted if the borrower's address is unknown and remains unknown after the lender has exhausted all required skip tracing activities. In such instances, the lender is excused from sending the borrower a final demand letter, unless a valid address for the borrower is obtained on or before the 150th day of delinquency (the 210th day for loans payable in installments less frequent than monthly).

- Establishes collection rules for a rolling delinquency or special occurrence if 1–10 days delinquent, 11–90 days delinquent, 91–120 days delinquent, or more than 120 days delinquent, as a result of the event.

- Permits a lender to continue collection efforts required in the 11–180 days of delinquency after sending the final demand letter to the borrower. Specifies that those collection efforts should be restricted to diligent telephone efforts.

- Requires a lender to perform telephone skip tracing activities if the lender discovers—even on the last required attempt to make a diligent effort to contact the borrower—that the telephone number is invalid.

- Clarifies that at least one diligent effort to contact the borrower by telephone must occur on or before the 90th day of delinquency.

- Defines gap in collection activity.

- Defines diligent effort for telephone contacts.

- Defines telephone and address skip tracing requirements and establishes time frames.

- Prescribes due diligence requirements for endorsers.

- Defines the earliest unexcused violation based on the type of violation causing the loss of the loan's guarantee.

- Codifies that a lender must complete the prescribed cure activities and reinstate a loan's guarantee within a specific 3-year time frame.

- Preempts any state law conflicting with lender collection requirements.

- Defines "made-up" collection activity.

July 1, 1996 (continued)
If a lender determines that it does not know the current telephone number for a delinquent endorser, the lender must diligently attempt to obtain a valid telephone number through the use of normal commercial skip tracing techniques. If the lender determines that a delinquent endorser's telephone number is incorrect after it sends the final demand letter, the lender need not attempt to find a valid telephone number. This change will be enforced for loans on which the first day of delinquency on the oldest outstanding due date was after July 1, 1996.

For delinquent borrowers, a lender's skip tracing techniques must include an inquiry to directory assistance or a comparable service. This change will be enforced for loans on which the first day of delinquency on the oldest outstanding due date was after July 1, 1996.

A due diligence gap starts the day after the date the lender receives a new correct telephone number for a delinquent borrower. This change will be enforced for loans on which the first day of delinquency on the oldest outstanding due date is after July 1, 1996.

The lender must complete the intensive collection activities (ICA)/location cure procedures (that is, the default claim must have been filed) by the 3-year deadline. This policy is effective for loans on which the first day of delinquency on the oldest outstanding due date is after July 1, 1996.

For each transfer student applying for Title IV aid, a school must obtain and evaluate financial aid transcript (FAT) data from the National Student Loan Data System (NSLDS) for each school the student attended previously. A school is required to complete and return paper FATs when requested to do so by another school. A school may certify or decline to certify a Stafford or PLUS loan application and promissory note, but may not release the proceeds of any Stafford or PLUS loan before receiving and evaluating data from NSLDS or a paper FAT, as applicable. This change is effective for FAT data requested by schools for the 1996–97 award year and thereafter.

In determining whether a student has ever defaulted on any Title IV loan, schools may rely on NSLDS financial aid history information (or transcripts from other schools in the case of a midyear transfer student) and on information provided by the student or parent borrower during the application process, unless the school receives conflicting information. The school must reconcile all conflicting information before delivering any funds. This change is effective for FAT information requested by schools for the 1996-97 award year and thereafter.

August 22, 1996
Noncitizen eligibility requirements are modified based on the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (effective August 22, 1996) and guidance from the Department of Education published in DCL GEN-98-2. The new eligibility criteria for FFELP borrowers includes noncitizens with a Departure Record (I-94) from the U.S. Immigration and Naturalization Service (INS) indicating one of the following statuses:

- Alien paroled into the U.S. for at least one year.

- Alien granted a stay of deportation [pursuant to 8 U.S.C. section 1253(h)] due to fear of persecution on account of race, religion, or political opinion.

- Conditional Entrant (valid if I-94 was issued before April 1, 1980).

The changes indicate the elimination of eligibility for certain categories of noncitizens previously determined to be eligible: Temporary Resident, Indefinite Parolee, Humanitarian Parolee, and Cuban-Haitian Entrant. Acceptable documentation for determining U.S. citizenship status includes a U.S. passport.

A school may deliver funds to an otherwise eligible student pending INS response to secondary confirmation, provided at least 15 business days have elapsed since the school submitted the documentation to INS. Citizens of the Federated States of Micronesia, the Republic of the Marshall Islands, and Palau are not eligible for FFELP funds at any participating school, but may be eligible for other types of Title IV aid. These changes are effective for loan applications certified by the school on or after August 22, 1996.

September 1, 1996
A guarantor will assume that the lender's receipt date of enrollment information is the day a guarantor successfully transmits such information electronically to the lender. If an enrollment update report is generated in the last 7 days of the month, the lender receipt date is assumed to be no later than 5 days after the end of the month. These changes apply to enrollment information generated by the guarantor on or after September 1, 1996.

If the late refiling of a bankruptcy claim results in a guarantor's missing any court-established deadlines, the result will be permanent cancellation of the guarantee on the loan, except in limited circumstances. This applies to returned claims received by the lender on or after September 1, 1996, unless implemented earlier by the guarantor.

September 1, 1996 (continued)
A borrower who requests reinstatement of Title IV eligibility, but is not requesting a new loan, is allowed to make the six required payments either before or after requesting reinstatement; at least one payment must be made by the borrower at or after the time of the request. This applies to loan applications certified by the school or requests for reinstatement of Title IV eligibility received from the borrower on or after September 1, 1996.

A PLUS borrower may consolidate his or her PLUS loans if the dependent student for whom the parent has borrowed is enrolled at least half time. This applies to Consolidation loan applications received by the lender no later than September 1, 1996.

November 1996
The Department announces the deadline for the completion of the lender audit is extended to June 30, 1998, for any audit period in which a lender originated or held FFELP loans totaling $5 million or less.

November 27, 1996
The Department publishes final regulations on regulatory relief, record retention, conflict of interest, and guarantor and lender due diligence, effective July 1, 1997.

November 29, 1996
The Department publishes final regulations on cash management and financial responsibility for schools, effective July 1, 1997.

December 31, 1996
A lender is required to submit the compliance audit report to the Department if, for the fiscal year being audited, it made or held:

- FFELP loans totaling $10 million or more.
- More than $5 million but less than $10 million in FFELP loans and its compliance audit report identifies findings of noncompliance.

A lender who made or held FFELP loans totaling more than $5 million but less than $10 million for the fiscal years being audited and whose report does not disclose findings of noncompliance must retain those reports for a period of 5 years and submit them to the Department only if requested. Historically, meeting the requirement to submit an annual compliance audit for a lender who made or held less than $5 million in FFELP loans has been delayed. This is effective for fiscal years ending on or after December 31, 1996.

1997

January 16, 1997
The criteria for determining annual loan limits for students taking preparatory coursework are revised to include:

- A student who is taking preparatory coursework that the school has determined and documented to be necessary for the student to enroll in an undergraduate program may borrow at the first-year undergraduate loan level.
- A student who is taking preparatory coursework that the school has determined and documented to be necessary for the student to enroll in a graduate or professional program may borrow at the fifth-year undergraduate loan level.

These changes are effective for loan applications certified by the school on or after January 16, 1997.

February 1, 1997
If the PLUS loan applicant is required to obtain an endorser in order to be eligible for the PLUS loan, the student for whom the PLUS loan is being obtained cannot serve as the endorser. This applies to PLUS loan applications received by the lender on or after February 1, 1997.

If all four required diligent efforts to contact the borrower by telephone have been completed and the lender subsequently becomes aware it does not have a correct telephone number for the borrower, the lender is not required to perform telephone skip tracing activities. This change is effective for borrower telephone numbers determined by the lender to be invalid on or after February 1, 1997.

If a lender learns that a reference does not know the borrower's current whereabouts, does not anticipate contact with the borrower in the future, or that the reference is not acquainted with the borrower, the lender must note this information in the loan's servicing history and is not required to contact that reference again. This change is effective for borrower addresses or telephone numbers determined by the lender to be invalid on or after February 1, 1997.

March 1, 1997
A guarantor will review the most recent 6-month period to determine whether a borrower qualifies for reinstatement of Title IV eligibility. Each of the six required payments must be received within 15 days of the due date for the 6 months immediately preceding the date the guarantor receives the borrower's new loan application and promissory note or request for reinstatement. This applies to loan applications or requests for reinstatement received by the guarantor on or after March 1, 1997.

A passport is no longer accepted as a valid source document for initiating and reporting a social security number change. A state driver's license or a state-issued identification card for those states in which the social security number is listed on the license or identification card has been added as a resource document for the initiating and reporting an social security number change. This applies to social security number changes initiated or reported on or after March 1, 1997.

A lender who offers discounted interest rates must notify the borrower that the lower interest rate ends on the date a default or ineligible borrower claim is purchased by the guarantor. A lender is required to provide documentation of this notice if a borrower challenges the guarantor or the Department of Education for charging the applicable statutory maximum interest rates during postclaim interest accrual. If the issue goes to court and the court's decision in favor of the borrower makes the loan unenforceable at the maximum statutory interest rate, the lender will be required to repurchase the loan and the guarantee will be withdrawn permanently. The lender may be required to reimburse the guarantor for any court costs or court-imposed fines or penalties. This applies to loans beginning repayment at a reduced interest rate on or after March 1, 1997.

Schools that have received a letter from the Department confirming successful submission of a Student Status Confirmation Report (SSCR) roster file to the National Student Loan Data System (NSLDS) are exempt from the requirement to process SSCR rosters received directly from guarantors. Schools that have not received a letter from the Department confirming successful submission of an SSCR roster file to the NSLDS must respond both to SSCR roster files received from the NSLDS and SSCRs received from guarantors until otherwise notified by the Department.

These changes are effective for SSCR roster files received by a school from the Department on or after March 1, 1997.

April 1, 1997
A baptismal certificate or voter registration card may not be used as acceptable documents for secondary confirmation of a student or parent's citizenship. This applies to citizenship verifications requested by the school on or after April 1, 1997.

If a closed school or false certification claim includes FFELP loans that have been paid in full as a result of a Consolidation loan, the consolidating lender must submit the original application and promissory note for the underlying FFELP loan(s) assigned to the guarantor. However, if the loan(s) that qualifies for discharge is paid in full as a result of consolidation, or consists solely of FFELP loans paid in full by or on behalf of the borrower and the original or the true and exact copy of the application and promissory note cannot be located, the guarantor and the lender must examine their records and any documentation submitted by the borrower to determine if the borrower qualifies for a discharge or refund. This applies for claims filed by the lender on or after April 1, 1997.

A lender may grant a forbearance retroactively to resolve the borrower's delinquency, provided the duration of each forbearance agreement does not exceed the maximum 12-month limit. This change is effective for forbearances granted by the lender on or after April 1, 1997.

May 1, 1997
If the lender receives a Notice of the First Meeting of Creditors (the Notice) or other confirmation from the bankruptcy court (directly either from the court or from another source) that a borrower has filed for relief under any chapter of the bankruptcy code, the lender must cease collection activities and may not file a preclaim assistance request with the guarantor. Further, if the lender has already filed for preclaim assistance and receives notice of any bankruptcy action, the lender must immediately, within 5 business days of the lender's receipt of the Notice, notify the guarantor to cancel preclaim activities based on a bankruptcy action filed on the borrower's loans. If the lender's failure to comply results in the court determining the loan to be unenforceable, the guarantee on the loan will be permanently canceled. Further, the lender will be required to reimburse the guarantor for costs associated with defending itself against contempt of court charges on the account if those charges are based solely on the lender's failure to comply with these provisions and can be demonstrated accordingly. In the event the lender receives notice that the bankruptcy action has ended and the loan remains enforceable and is deemed nondischargeable; the bankruptcy case is dismissed; or discharge is reversed, the lender must treat the loan as though it were in forbearance. This change is effective for loans on which the lender receives the bankruptcy notification on or after May 1, 1997.

May 1, 1997 (continued)
Lenders must not adjust the borrower's AGD if the lender receives enrollment information as part of an in-school deferment request that is certified for an academic period that ends earlier than the borrower's AGD of record and no conflicting AGD information is included on the enrollment certification. The lender must document that it received information from the school, but need not report to the guarantor any information regarding the loan's status, except to fulfill the NSLDS lender manifest reporting requirements. If the lender receives enrollment information that is certified for an academic period that ends after the borrower's AGD of record, the lender should adjust the borrower's AGD to agree with the information provided on the enrollment certification. Lenders are permitted to process the deferment through the academic period end date certified by the school or the AGD of record, whichever is later, if the enrollment verification information used to certify the borrower's deferment eligibility does not include an AGD. This change is effective for in-school deferment requests received by the lender on or after May 1, 1997.

A guarantor will guarantee a Consolidation loan only if the borrower (or borrowers in the case of spouses applying to consolidate their loans) has one or more active loans currently held by the guarantor except as otherwise agreed on a case-by-case basis by the lender and guarantor. This is effective May 1, 1997.

July 1, 1997
Final regulations on regulatory relief, record retention, conflict of interest, guarantor and lender due diligence, and cash management take effect.

The following changes are effective for loan proceeds received by the school on or after July 1, 1997:

- Schools must deliver loan proceeds within specific time frames after receipt.
- Latest delivery date and time frame for returning undelivered proceeds to the lender is defined.
- Examples of latest delivery date and deadline for returning proceeds are provided.
- Schools must return loan proceeds to the lender within specific time frames after receipt.
- Delivery date for students who return from a leave of absence is defined.
- Delivery restrictions for schools on the reimbursement payment method are defined.

The following changes apply to schools that receive loan proceeds under the reimbursement payment method on or after July 1, 1997:

- Criteria for school certification of the application and promissory note is explained.
- Schools must receive approval from the Department before delivering loan proceeds.

The following change applies to the date, on or after July 1, 1997, that the Department notifies a school that it must obtain approval from the Department to certify loan applications:

- Certification restrictions for schools on the reimbursement payment method are defined.

The following changes apply to loan proceeds that are either credited to the student's account or paid directly to the student or parent borrower on or after July 1, 1997:

- The delivery date when the school is applying school funds in advance of receipt of FFELP proceeds is defined.
- The requirements for the notice to the borrower of the right to cancel are defined.

The following changes apply to students who become ineligible under 668.164(g)(1) (i.e., student is no longer enrolled as at least a half-time student for the loan period) on or after July 1, 1997:

- Schools may deliver loan proceeds after the end of the loan period or the date on which the student ceased to be enrolled at least half time.
- Schools must deliver a late disbursement no later than 90 days after the earlier of the end of the loan period or the date the student ceased to be enrolled at least half-time.
- Late disbursement by the lender and late delivery by the school is defined.

July 1, 1997 (continued)
The following changes are effective for authorizations obtained by a school to carry out the activities described under 668.165(b)(1) beginning on or after July 1, 1997:

- Schools must obtain written authorization from the student or parent borrower to perform certain activities.

- Guidelines for authorization modifications and cancellations are established.

The following change is effective for payment periods beginning on or after July 1, 1997:

- Earliest date the school may directly pay the borrower or credit the student's account if the student is in a clock-hour program or credit-hour program that is not offered in semester, trimester, or quarter academic terms is defined.

The following changes are effective for loan periods on or after July 1, 1997:

- Requirements for the receipt and maintenance of loan proceeds are revised.

- School requirements for delivery of loan proceeds are revised.

- School delivery methods are defined.

- Delivery restrictions are defined.

- Requirements for delivering of credit balances are defined.

- Requirements for holding credit balances are defined.

- Requirements for crediting student accounts are explained.

- The first and second disbursement date must be scheduled on a payment-period basis rather than on the basis of enrollment period.

- Required notices a school must send to a student are defined.

The following change is effective on or after July 1, 1997, for any balances of loan proceeds:

- A school must pay any remaining loan balance to a student or parent borrower no later than the end of the loan period.

The following changes are effective for disbursements reissued by the lender on or after July 1, 1997:

- Circumstances in which lenders will reissue loan proceeds are defined.

- Requirements schools must follow when requesting loan proceeds be reissued are defined.

Because of possible differences in interpretation of the term "first day of classes," (i.e. first day of classes for an individual student or first day of regularly scheduled classes) the *Common Manual* definition of "payment period" will be amended to clarify that the payment period begins on the first day of regularly scheduled classes. This applies to loan periods beginning on or after July 1, 1997.

A third-party servicer that contracts with more than one lender must have performed a compliance audit that covers the servicer's administration of Title IV programs for all the lenders for which it services. This requirement may be satisfied with a single audit of all the servicer's functions if the audit encompasses all the services provided for the lenders for which it provides such services. These provisions are effective July 1, 1997.

A lender is permitted to store records for each FFELP loan it holds in hard copy or on microform (e.g. microfilm or microfiche), computer file, optical disk (e.g. electronic optical image), CD-ROM, or other media formats. All records must be retrievable in a coherent hard copy format or in other media formats such as microform, computer file, optical disk, or CD-ROM. This change is effective for records retained on or after July 1, 1997.

A Federal Consolidation loan is considered to be disbursed on the date of the first individual or master check, payment advice, or noncash transfer that transfers funds from the consolidating lender to the holder of the loans to be consolidated. For funds disbursed by EFT, the Consolidation loan is considered disbursed on the first date that funds are transferred. If the loan funds for multiple underlying loans are disbursed on multiple days, including funds issued through the end of the 180-day add-on period, those disbursements are considered "subsequent disbursements." The loan's first disbursement date is used to determine its terms and conditions.
This change is effective for Consolidation loans with first disbursements on or after July 1, 1997.

July 1, 1997 (continued)

Lenders must report the making of a Consolidation loan to the guarantor not more than 60 days following the date on which the funds are disbursed. If a lender adds a loan within the 180-day add-on period, the lender must report the new Consolidation loan information to the guarantor within 60 days of the date on which the additional loan funds are disbursed or the adjustment is made. Failure to report the loan timely may result in the loss of the loan's guarantee. This is effective for Consolidation loans made by the lender on or after July 1, 1997.

Lenders may store required records—except for the promissory note—in hard copy or on microform, computer file, optical disk, CD-ROM, or other imaged media formats capable of reproducing an accurate, legible, and complete copy in approximately the same size as the original document. This applies to records retained on or after July 1, 1997.

A school must participate in the electronic processes that the Department provides at no substantial charge to the school. Schools are not restricted to using only software and services provided by the Department. This standard is effective July 1, 1997.

Schools are required to perform both annual compliance and financial audits based on their fiscal year. These audits must be submitted within 6 months of the end of their fiscal year. The financial statement must include a detailed description of related entities and should list parties related to the school and details that enable the Department to readily identify the related entities. A proprietary school must disclose in a footnote to its financial state the percentage of its revenues derived from Title IV programs during the covered fiscal year. Each compliance audit must cover all Title IV transactions in that fiscal year and all transactions that occurred since the period covered by its last compliance audit. The school must permit the Department or its authorized representative access to any records or documentation that would assist in the review of the school's third-party servicer's compliance or financial statement audit. Foreign schools also must submit an audited financial statement of the most recently completed fiscal year. If a school receives less than $500,000 (U.S.) in Title IV program funds during that fiscal year, its audited financial statement for that year may be prepared under the auditing standards and accounting principles of the school's home country. If a foreign school receives $500,000 (U.S.) or more in Title IV program funds during its most recently completed fiscal year, the school must submit its audited financial statement in accordance with (U.S.) federal regulation and satisfy the general standards of financial responsibility outlined for schools in the United States or must qualify under an alternate standard of financial responsibility specified in regulation. These requirements are effective July 1, 1997.

A school or the school's designated servicer must provide information about borrowers upon request by the Department, a lender, or a guarantor. Schools or the school's designated servicer should respond to such a request within 30 days. In addition to providing any information the school has regarding the last known address, full name, employer, and employer address of a borrower who attends or has attended the school, the school now must also provide the borrower's telephone number and enrollment information. This applies to requests for information received by the school on or after July 1, 1997.

The Department has consolidated and clarified existing record retention rules to reduce the administrative burden on schools. A school is required to maintain program records, which document the school's eligibility administration of the FFELP, and fiscal records relating to each FFELP transaction. The school also must keep loan-related records as follows:

- A copy of the loan application—or application data, if submitted electronically to a lender or a guarantor—including the name of the borrower and, for PLUS loans, the name of the student on whose behalf the loan was made.
- The name and address of the lender.
- Documentation of each student or parent borrower's receipt of FFELP funds, including, but not limited to, the loan amount, the payment period, and the period of enrollment for which the loan was intended; calculations used to determine the loan amount; the date(s) and amount(s) of each delivery of loan proceeds by the school to the student or parent borrower; the date and amount of any refund paid to or on behalf of the student and the method by which the refund was calculated; and the payment of any refund to a lender of the Department.
- The Student Aid Report (SAR) or the Institutional Student Information Record (ISIR).
- Documentation of each student or parent borrower's eligibility for FFELP funds, such as documentation of need, cost of attendance, verification, enrollment status, financial aid history, satisfactory progress, etc.
- The school's receipt date for each disbursement of the loan.

July 1, 1997 (continued)

- For loans disbursed to the school by copayable check, the date the school endorsed the check.

- For loans disbursed by electronic funds transfer (EFT) or master check, the student or parent borrower's authorization to the school to transfer the initial and subsequent disbursements of each FFELP loan to the student's school account.

- Proof that requirements for entrance and exit loan-counseling are met.

- Any required reports or forms and any records needed to verify data reported in those reports or forms.

- Documentation supporting the school's calculations of its completion and graduation rates.

These provisions are effective July 1, 1997.

Lenders are required to send the first delinquency notice no later than the 15th day of delinquency. The content of this first delinquency notice has been modified to include, at a minimum; lender/servicer contact information and a telephone number (e.g., the name and telephone number of the customer service department). It also must include a prominent statement informing the borrower that assistance may be available if the borrower is experiencing difficulty in making a scheduled payment. Because of the change in the timing of the first delinquency notice, the time frame for the second "window" of collection activity will change from the current 11–180 days delinquent period to 16–180 days (16–240 days delinquent for a loan repayable in installments less frequent than monthly). At least one of the four written notices or collection letters sent during this period must include, at a minimum, information regarding deferment, forbearance, income-sensitive repayment, loan consolidation, and other available options to avoid default. The content of at least two of the four collection letters sent during the 16–180 day period has also been modified to add language to inform the borrower that the guarantor may also offset other payments made by the federal government to the borrower and that the guarantor may assign the loan to the federal government for litigation against the borrower. This change is effective for loans on which the first day of delinquency on the oldest outstanding due date is after July 1, 1997. The oldest outstanding due date is the date from which the current 180-day due diligence counter is based and is sometimes referred to as the "latest," "current," or "next" due date.

The timing of when a lender may assess a late charge has been changed from 10 days to 15 days after a payment is due. This change is effective for late charges assessed by the lender on or after July 1, 1997.

In calculating a pro rata refund for a student who withdrew from a clock-hour program, the school may include excused absences in the number of clock hours completed by the student as of his or her withdrawal date if both of the following conditions exist:

- Under the school's written policy the absences do not have to be made up to complete the program.

- The school documents that the hours actually were scheduled and missed prior to the student's withdrawal.

In addition to the required conditions noted above, the number of excused absences included as hours completed during the enrollment period for which the student was charged must be limited to the least of the following:

- The number of clock hours permitted under the excused absence policy of the school's nationally recognized accrediting agency.

- The number of clock hours permitted under the excused absence policy of the state agency that licenses or authorizes the school to operate in the state.

- 10% of the number of clock hours in the period of enrollment for which the student was charged.

This change is effective for students eligible for pro rata refunds on or after July 1, 1997.

August 5, 1997
President Clinton signs into law the Taxpayer Relief Act of 1997, providing for the Hope Scholarship Credit, the Lifetime Learning Credit, and a deduction on interest paid on student loans and creating the Education Individual Retirement Accounts (Education IRAs).

September 18, 1997
If there is a data discrepancy on a Consolidation loan, the lender will be granted an additional 60 days from the date the guarantor rejects the application (plus 5 days' mail time) to provide additional or corrected information. The guarantor reserves the right to take appropriate corrective action (including the imposition of interest penalties) if the lender fails to report the making of a Consolidation loan, fails to report the disbursement of additional funds, or fails

to report any other adjustment of the outstanding original balance within 60 days after that activity occurs. Repeated or intentional noncompliance (including failure to reconcile) may result in the withdrawal of the loan guarantee. This change is effective for Consolidation loans made by the lender on or after September 18, 1997.

September 19, 1997
The Department publishes in the *Federal Register* a notice of new requirements that institutions must follow to be in compliance with the Department's administrative standard for electronic processes.

November 1, 1997
To obtain an unemployment deferment or an extension of an unemployment deferment, a borrower must request the deferment or extension. If requesting an extension, this description must document at least six attempts to secure employment during the period to be covered by the deferment. An Internet address for the firm or place of employment (e.g., Website or electronic mail) is an acceptable address if the borrower applied electronically for employment. As an alternative to certifying employer contacts, a lender may accept comparable documentation that the borrower has used to meet the requirements of the Unemployment Insurance Service, provided the documentation shows the same number of contacts and contains the same information required from the borrower. In addition, an Internet address for the public or private employment agency at which the borrower is registered (e.g., Website or electronic mail) is an acceptable address if the borrower registered electronically with the agency. It may not be presumed that a borrower has access to an employment agency based on the borrower's providing a firm's Internet address as part of the documentation that the borrower attempted to secure full-time employment. This change is effective for unemployment deferment requests received by the lender on or after November 1, 1997.

An endorser may be released from his or her repayment obligation on a loan if the endorser dies and the lender receives evidence of the endorser's death, such as a copy of the death certificate or other proof of the endorser's death that is acceptable under applicable state law. This change is effective for death certificates or other acceptable documentation received by the lender on or after November 1, 1997.

November 13, 1997
President Clinton signs into law (P.L. 105-78) the Emergency Student Loan Consolidation Act (ESLCA) of 1997. The following provisions of the Emergency Student Loan Consolidation Act of 1997 (ESLCA) are effective for Consolidation loan applications received by the consolidating lender between November 13, 1997, and September 30, 1998, inclusive:

- Withdrawal of Direct Consolidation Loan Application

  A borrower with a pending application for a Direct Consolidation loan may apply for a Federal Consolidation loan, provided that the application for the Direct Consolidation loan is canceled by the borrower prior to the date on which the Federal Consolidation loan is made. The FFELP lender may rely on the borrower's statement that any pending Direct Consolidation loan application has been or will be canceled.

- Direct Loans Eligible for Federal Consolidation

  Direct loans may be included in a Federal Consolidation loan.

- Calculating the Federal Consolidation Loan Interest Rate

  For Federal Consolidation loans, the variable interest rate, adjusted annually on July 1, is calculated as follows:

  - For portions of the Consolidation loan attributable to FFELP, FDLP, FISL, Perkins, HPSL, or NSL loans, the variable rate is based on the bond equivalent rate of the 91-day Treasury bill, auctioned at the final auction prior to the preceding June 1st, plus 3.1%, not to exceed 8.25%.

  - For portions of the Consolidation loan attributable to HEAL loans, the variable rate is based on the 91-day Treasury bill, auctioned for the quarter ending June 30^{th}, plus 3.0%. (There is no interest rate cap on the HEAL portion.)

  If a lender initially calculated the interest rate on Consolidation loans, made during the subject period, at a fixed weighted average rate, the lender must convert the loans from the fixed to the variable rate prior to April 1, 1998, and make appropriate adjustments to the borrower's loan. In the conversion process, lenders must recalculate, at the variable rate, the amount of interest which would have been owed by the borrower on the Consolidation loan from the date on which the loan was made to the date of rate conversion and apply any credits to the borrower's account.

November 13, 1997 (continued)

- Interest Rate on Loans Added after Consolidation

  The interest rate applicable on an eligible loan added to a Federal Consolidation loan during the 180-day add-on period (except HEAL) is the variable interest rate applicable to the FFELP, FDLP, FISL, Perkins, HPSL, or NSL portion of the Federal Consolidation loan. The interest rate on HEAL loans added to a Federal Consolidation loan during the 180-day add-on period is the variable interest rate applicable to the HEAL portion of the Federal Consolidation loan.

- Interest Benefits for Federal Consolidated Loans

  During a period of authorized deferment, interest subsidies will be paid by the Department on the portion of a Federal Consolidation loan that repaid a subsidized Federal Stafford or subsidized Federal Direct Stafford loan.

Federal Consolidation loan lenders are prohibited from discriminating against a Federal Consolidation loan applicant based on any of the following criteria:

- The number or types of eligible student loans the borrower wishes to consolidate.

- The type or category of school the borrower attended.

- The interest rate the lender is required to charge the borrower on the Consolidation loan.

- The types of repayment schedules the lender must offer the borrower.

These provisions are effective for *all* Consolidation loan applications received by the consolidating lender on or after November 13, 1997.

November 25, 1997
The Department publishes final regulations on the standards and provisions of financial responsibility for schools. Changes will be effective July 1, 1998.

November 28, 1997
The Department publishes final "parity" regulations to eliminate certain differences in the requirements of the FFELP and FDLP and to reduce the regulatory burden on schools. Changes will be effective July 1, 1998.

December 17, 1997
The Department formally grants approval of the "Addendum to the Federal Family Education Loan (FFEL) Program Consolidation Application and Promissory Note." This addendum reflects the changed terms and conditions of the ESLCA of 1997.

1998

January 1, 1998
All lender records must be retrievable in a coherent hard copy format or in other media formats such as microform, computer file, optical disk, or CD-ROM. Any imaged media format used must be capable of reproducing an accurate, legible, and complete copy in approximately the same size as the original document, and must not permit additions, deletions, or changes without leaving a record of such additions, deletions, or changes. The media format must record and maintain the original document so that it can be certified as a true copy of the original in order to be admissible in a court of law, if such becomes necessary. If a document contains a signature, seal, certification, or any other validating mark, it must be maintained in original hard copy or in another media format that can produce a copy of the document (e.g., microform, optical disk, CD-ROM). This applies to records recorded by the lender on or after January 1, 1998.

All schools that participate in the Title IV programs must also participate in the Title IV Wide Area Network (TIV WAN). Also, for the 1998–99 processing year and beyond, schools must achieve a specified level of electronic on-line access to the National Student Loan Data System (NSLDS).

A Stafford aggregate loan limit does not include the amount of capitalized interest or collection costs that were added to the balance of any of the borrower's prior loans. This applies to loan applications certified by the school on or after January 1, 1998.

After the loan is guaranteed, the school may identify a need to change (increase or decrease) a borrower's loan amount or to revise the allocation of the student's loans between subsidized Stafford funds and unsubsidized Stafford funds. Changes in the loan amount may be made without obtaining a new application and promissory note, provided any increased loan amount will not exceed the amount requested by the borrower on the application and promissory note. Reallocations of subsidized and unsubsidized funds may be made without a new application and promissory note, provided the student requested both subsidized and unsubsidized loan funds. Such loan adjustments or reallocations may occur before any disbursement is made on the loan, after the first disbursement is made, or even after the final scheduled disbursement is made. In some instances a loan adjustment, made after the first or subsequent disbursements have been made, may result in a single disbursement that exceeds half of the total loan amount. When that excess is clearly documented as a loan increase or reallocation of funds, it is permissible. This policy is effective for adjustment requests received by the guarantor on or after January 1, 1998, unless the guarantor implements this policy earlier.

If a lender grants a deferment based on the borrower's certification and documentation received and, after approving the deferment, the lender receives information indicating that the borrower did not qualify for all or a portion of the deferment, the portion of the deferment for which the borrower did not qualify must be canceled. The lender may grant administrative forbearance to cover past due payments resulting from the cancellation of all or part of the deferment. This change is effective for deferment requests received by the lender on or after January 1, 1998.

An in-school deferment will remain in effect until the student ceases to be enrolled full time, or for "new borrowers on or after July 1, 1993," enrolled at least half time. In the event that the lender receives new enrollment verification information that indicates the borrower has been or will be continuously enrolled, a new deferment request is not required to extend the period of in-school deferment. A new deferment request is required only if the borrower has not been continuously enrolled or if a previous deferment is terminated at the borrower's request. This change is effective for enrollment verification information received by the lender on or after January 1, 1998.

If a borrower, residing on a U.S. military base or embassy compound in a foreign country because his or her spouse is stationed there, requests an unemployment deferment, he or she must provide documentation, equivalent to that required of borrowers residing in the U.S., describing the borrower's conscientious search for full-time employment. However, when identifying employment contacts, the "name of the firm" may be, for example, the U.S. military base employment office or U.S. embassy personnel office. These borrowers are not required to comply with the requirement that they document further attempts to secure employment during the period of certification, if the borrower has sought employment with the U.S. military base employment office, the U.S. embassy personnel office, or the equivalent. This applies to unemployment deferment requests received by the lender on or after January 1, 1998.

A borrower who is newly self-employed may not be able to provide traditional documentation of income for an economic hardship deferment. Instead, the borrower must provide the lender with a self-certifying statement of projected monthly income from all sources. In addition, the borrower must provide documentation of the newly formed business and documentation of the borrower's involvement in that business. This change is effective for deferment requests received by the lender on or after January 1, 1998.

For loans with a monthly repayment obligation, lenders must send the borrower at least four written notices or collection letters during the 16–180 days delinquency period, informing the borrower of the delinquency and urging the borrower to make payments. The required notices or collection letters sent during this period must include, at a minimum, information regarding deferment, forbearance, income-sensitive repayment, loan consolidation, and other available options to avoid default. This change became effective on January 1, 1998.

March 1998
The Department announces the deadline for the completion of the lender audit is extended to June 30, 1999, for any audit period in which a lender originated or held FFELP loans totaling $5 million or less.

June 9, 1998
The President signs into law the Transportation Equity Act for the 21st Century, which enacts the Temporary Student Loan Provisions to amend the Higher Education Act with respect to the applicable interest rate and special allowance formula for Stafford and PLUS loans with a first disbursement on or after July 1, 1998, and before October 1, 1998. *The following interest rate and special allowance formulas for Stafford and PLUS loans first disbursed on or after July 1, 1998, were not implemented as a result:*

- A Stafford loan has an annual variable interest rate, not to exceed 8.25%, regardless of the period of enrollment or the interest rate on the borrower's previous loans. The rate is calculated by adding 1.0% to the bond equivalent rate of securities with a comparable maturity as established by the Department.

- A PLUS loan has an annual variable interest rate, not to exceed 9%. The rate is calculated by adding 2.1% to the bond equivalent rate of securities with a comparable maturity as established by the Department.

June 9, 1998 (continued)

- The special allowance rate for both Stafford and PLUS loans is calculated using the following formula:

  (Bond Equivalent Rate of Securities with a Comparable Maturity as Established by the Department + 1.0% – Applicable Interest Rate of the Loan) ÷ 4

July 1, 1998
For Stafford and PLUS loans first disbursed on or after July 1, 1998, but before October 1,1998, the interest rate formulas are prescribed by the Temporary Student Loan Provisions of the Transportation Equity Act for the 21st Century. These provisions are as follows:

- A Stafford has an annual variable interest rate not to exceed 8.25%, regardless of the period of enrollment or the interest rate on the borrower's previous loans. During periods when the loan is in an in-school, grace, or authorized deferment status, the interest is calculated by adding 1.7% to the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1. During periods when the loan is in repayment or forbearance status, the interest rate is calculated by adding 2.3% to the 91-day Treasury bill rate.

- A PLUS loan has an annual variable interest rate not to exceed 9%. The variable rate for each July 1 to June 30 period is calculated by adding 3.1% to the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1.

For Stafford and PLUS loans first disbursed on or after July 1, 1998, but before October 1, 1998, the applicable special allowance formulas are prescribed by the Temporary Student Loan Provisions of the Transportation Equity Act for the 21st Century. These provisions are as follows:

- For Stafford loans only during the in-school, grace and deferment periods, the annual special allowance rate equals the average of the bond equivalent rates of the 91-day Treasury bills auctioned during the quarter, plus 2.5%, less the applicable interest rate on the loan.

- For Stafford loans, except during the in-school, grace and deferment periods, the annual special allowance rate equals the average of the bond equivalent rates of the 91-day Treasury bills auctioned during the quarter, plus 2.8%, less the applicable interest rate on the loan.

- For PLUS loans, the annual special allowance rate equals the average of the bond equivalent rate on of the 91-day Treasury bills auctioned during the quarter plus 3.1% less the applicable interest rate on the loan. However special allowance shall not be paid unless the calculated interest rate exceeds the 9% cap.

All participating institutions must have access to the Department's Information for Financial Aid Professionals Website (*http://ifap.ed.gov*) in order to receive regulations, Dear Colleague Letters, and other important communications. Also, institutions must be able to submit the Application for Approval to Participate in Federal Student Aid Programs (recertification, reinstatement, and changes) through the Internet and to electronically submit the Fiscal Operations Report and Application to Participate (FISAP) to the Title IV Wide Area Network (TIV WAN). Diskettes are eliminated.

Expanded School Financial Responsibility Standards
The following changes are effective for schools that submit audited financial statements to the Department on or after July 1, 1998. However, schools that do not meet the composite score standard (see *Composite Score* below) for fiscal years that begin between July 1, 1997, and June 30, 1998, inclusive, may demonstrate that they are financially responsible by meeting the financial responsibility standards specified in §668.175(e).

General School Financial Responsibility Requirements
In addition to previous financial standards, schools must also comply with all of the following new financial responsibility requirements:

- The school must provide all services described in its official publications and statements.

- The school must properly administer the Title IV programs in which it participates.

- The school must meet all of its financial obligations.

Specific Criteria for Determining School Financial Responsibility
To fulfill the new cash reserve requirements, a school must meet at least one of the following criteria:

- The school satisfies the financial responsibility standards for public schools.

- The school is licensed to operate in a state that has a Department-approved tuition recovery fund to which the school contributes.

July 1, 1998 (continued)

- The school demonstrates that it has paid its refunds in a timely manner for both of the school's two most recently completed fiscal years.

A school failing to meet at least one of the criteria listed must submit an irrevocable letter of credit that is acceptable and payable to the Department, equal to 25% of the total dollar amount of Title IV program refunds paid or that should have been paid by the school in the previous fiscal year.

A public school is considered to be financially responsible if it meets all of the following conditions:

- The school notifies the Department that it is designated as a "public institution" by a government entity that has legal authority to make that designation.

- The school provides a letter from the designating government entity confirming the school's status as a "public institution."

- The school is not in violation of any past performance requirement.

A proprietary or private nonprofit school is considered to be financially responsible if it meets the following conditions:

- The school is current in its debt obligations.

- The school's financial statements do not contain a statement in which the auditor has expressed doubt about the continued existence of the school.

- The school has not violated a Title IV program requirement or affiliated persons do not owe a liability for Title IV program violations.

- The school has sufficient cash reserves to make required refunds (see *Sufficient Cash Reserves Requirements* above).

- The school's Equity Ratio, Primary Reserve Ratio, and Net Income Ratio yield a composite score of at least 1.5 (see *Composite Score* below).

A proprietary school or private nonprofit school that is not considered to be financially responsible because it failed to meet any of the five standards of financial responsibility listed above may begin or continue to participate in the Title IV programs by qualifying under an alternative standard, as determined by the Department.

Composite Score
One of the factors for determining a school's financial responsibility is a composite score that indicates the overall financial status of a participating proprietary or private nonprofit school. The Department uses the school's audited financial statements to calculate a composite score, which is derived from a combination of the following three ratios:

- The Primary Reserve Ratio, indicating the measure of a school's financial viability and liquidity.

- The Equity Ratio, measuring the amount of total resources financed by an owner's investments, contributions, or accumulated earnings.

- The Net Income Ratio, providing a direct measure of a school's profitability and ability to operate within its means.

The three ratios are adjusted by strength and weighting factors, and are then added together to arrive at a composite score.

Schools must satisfy the standards for a public institution under 34 CFR 668.171(c), be located in a state that has a tuition recovery fund approved by the Department and to which the school contributes, or demonstrate that required refunds by the school have complied with prescribed time periods during the school's two most recently completed fiscal years. This change is effective for guarantor reviews of a school's compliance with federal financial responsibility standards on or after July 1, 1998.

Refunds are considered timely only if both of the following conditions are met:

- The reviewing entity did not find in the sample of student records audited for either fiscal year that the school made late refunds to 5% or more of Title IV recipients who received or should have received a refund, or did not find that the school made more than one late refund in that sample.

- The reviewing entity did not note for either fiscal year a material weakness or a reportable condition in the school's report on internal controls related to refunds.

This change is effective for guarantor reviews of a school's compliance with federal financial responsibility standards on or after July 1, 1998.

July 1, 1998 (continued)
Stafford loan eligibility is clarified that if a student is eligible for a subsidized Stafford loan in an amount that exceeds $200, the school must certify an application for a subsidized Stafford loan prior to certifying an unsubsidized Stafford loan. If the student is eligible for a subsidized Stafford loan in an amount of $200 or less the school may include the amount of subsidized Stafford eligibility in the unsubsidized Stafford loan. This applies to loan applications certified by the school on or after July 1, 1998.

A lender must refund the guarantee fee and origination fee or an appropriate prorated amount of the guarantee fee and origination fee, and apply the refund as a credit to the borrower's principal balance, if any of the following conditions exist:

- The loan or any portion of the loan is returned by the school to the lender, at any time, to comply with Title IV program requirements. In the absence of any required notification from the school, the lender may assume that the school is returning funds to comply with these requirements.

- The disbursement check has not been negotiated within 120 days of disbursement.

- The loan proceeds disbursed by electronic funds transfer (EFT) or master check have not been released from the school's account within 120 days of disbursement.

If a borrower, who does not have any loans in repayment, repays or returns any portion of the disbursement within 120 days of the disbursement, the lender must apply the funds as a cancellation or partial cancellation of the loan and refund the guarantee fee and origination fee or an appropriate prorated amount of the guarantee fee and origination fee, as applicable. The lender must apply the refund of the guarantee fee and origination fee as a credit to the borrower's principal balance. The lender must comply with any borrower request regarding the application of repaid or returned funds. If a borrower has any loans in repayment, a lender must apply funds that are repaid or returned by the borrower within 120 days of the disbursement according to its normal payment processing procedures. The lender must comply with any borrower request that the repaid or returned funds be applied as a cancellation. This clarification is effective for funds received by the lender on or after July 1, 1998.

A borrower must be certified totally and permanently disabled according to FFELP discharge criteria for all underlying loans included in the Consolidation loan—including any non-FFELP loans. This applies to Temporary Total and Permanent Disability Certification Request Forms and Total and Permanent Disability Cancellation Request Forms received by the lender on or after July 1, 1998.

In cases when a lender performs an ICA/location cure procedure on a loan for which a preclaim assistance request has not been submitted in the most recent 180-day delinquency period, the lender is no longer required to submit a request for preclaim assistance after the borrower has been located and before sending the final collection letter. This applies to borrowers located on or after July 1, 1998, unless implemented earlier by the guarantor.

August 5, 1998
A borrower whose first disbursement on his or her oldest outstanding loan is on or after July 1, 1993, is now eligible to receive an economic hardship deferment by providing the lender with documentation from the Peace Corps showing that he or she is or will be serving as a Peace Corps volunteer. A lender may grant an economic hardship deferment for up to the full 36-month maximum deferment period from a single request. A borrower who qualifies for an economic hardship deferment based on his or her Peace Corps service is not required to submit income documentation. This change is effective for economic hardship deferment requests submitted by eligible Peace Corps volunteers and received by lenders on or after August 5, 1998.

September 1, 1998
The Department released Dear Colleague Letter ANN-98-10, which introduced the Master Promissory Note (MPN) for the Federal Family Education Loan Program.

Common Skip Tracing Requirements
Unless otherwise noted, the following policies will be implemented for loans on which a notice of invalid address or telephone number, as applicable, is received on or after September 1, 1998, unless implemented earlier by the guarantor.

September 1, 1998 (continued)

- Simultaneous Address Skip Tracing and Telephone Due Diligence

  During the period the lender is attempting to obtain a valid *address* for a borrower, the lender must continue to perform all *telephone* due diligence requirements. The lender may cease making such calls only if it determines that a borrower's telephone number is invalid, in which case the lender must perform telephone skip tracing.

- "Commercial" Skip Tracing Activities

  The lender's skip tracing activities must include other normal commercial skip tracing activities that the lender would conduct in pursuit of information on any other loan in its consumer loan portfolio. Lenders must perform at least two additional normal commercial skip tracing activities but are encouraged to pursue all available sources of information to obtain a valid address.

- Address Skip Tracing Requirements

  The lender is not required to perform skip tracing activities if *both* of the following conditions are met:

  - The lender has mailed a timely final demand letter.

  - The borrower's loan becomes delinquent 151 or more days (211 or more days for loans payable in installments less frequently than monthly) as a result of the reversal of a payment.

- Repeating Skip Tracing Activities Not Required

  If any address skip tracing activities have been performed prior to the lender becoming aware of an invalid telephone number for the borrower, the lender is considered to have begun telephone skip tracing activities and need not repeat any activities already completed. Similarly, if any telephone skip tracing activities have been performed prior to the lender becoming aware of an invalid address for the borrower, the lender must initiate additional address skip tracing activities within 10 days of making the determination that it does not have a valid address for the borrower, but need not repeat any activities already completed when performing required address skip tracing activities.

- Telephone Diligent Effort Exceptions Modified

  A lender is not required to make diligent efforts to contact a borrower by telephone in the following cases:

  - The lender is advised that the borrower has no telephone number or that there is no telephone service in the general geographic area where the borrower resides and the lender verifies and documents this information in the borrower's file or in the servicing history of the loan.

  - The borrower's telephone number is invalid and all required skip tracing activities have been performed.

- Relationship between Endorser Due Diligence and Borrower Skip Tracing Requirements Clarified

  A diligent effort to contact an endorser on a delinquent account is sufficient to satisfy both an endorser due diligence requirement and a borrower skip tracing requirement, provided the activity is documented as both in the lender's servicing history. If the endorser is contacted, the lender must discuss both the delinquency of the account and the endorser's obligation to repay the debt, and must confirm the borrower's location and telephone number.

  Lenders must send a final demand letter to each delinquent borrower in accordance with appropriate due diligence requirements. If a lender fails to mail a final demand letter to a borrower in accordance with due diligence requirements and a "special occurrence" or rolling delinquency occurs, the lender is still required—regardless of the aging of the delinquency—to send a final demand letter. There are two exceptions to this requirement:

  - The loan becomes 151 days or more delinquent (211 days or more delinquent for loans payable less frequently than monthly) and the borrower's address is invalid and remains invalid after the lender has exhausted all required skip tracing activities and required diligent efforts.

  - The lender previously mailed a timely final demand letter prior to a rolling delinquency or a special occurrence (see subsection 8.1.B.) and the borrower is 151 days or more delinquent (211 days or more delinquent for loans payable less frequently than monthly).

September 1, 1998 (continued)

These changes are effective for invalid address notifications received by the lender on or after September 1, 1998, unless implemented earlier by the guarantor.

Preclaim and Claim Forms/Policies Adopted by Guarantors
The Preclaim Request Form or an equivalent electronic format is effective for all requests filed by lenders. The Claim Form or an equivalent electronic format is effective for all claims filed by lenders on or after March 1, 2000, unless implemented earlier by the guarantor. These new forms require lenders to collect and report data, for loans first disbursed on or after September 1, 1998.

All loans included on the Preclaim Request Form must have the same loan type, due date, and interest-paid-through date. Subsidized and unsubsidized Stafford loans that have been combined into one repayment schedule may be combined in one preclaim request.

For all loans first disbursed on or after September 1, 1998, the lender *must* provide the following information when requesting preclaim assistance on the Preclaim Request Form or in an equivalent electronic format. For loans with first disbursements *prior* to September 1, 1998, if the lender has the following additional information, it must provide the information on the request for preclaim assistance:

- Address and last name, first name, and middle initial of two references.
- Full name of the endorser, comaker, or PLUS student and identifying code.
- Endorser's, comaker's, or PLUS student's social security number.
- Endorser's or comaker's last-known complete address and validity of the address, and home telephone number and validity of the number.
- Servicer's 6-digit servicer ID assigned by the Department.

The lender must provide other information only if it is available. The lender may or may not have this information in its servicing records. A lender that cannot provide this information is not required to establish a reporting mechanism.

If a lender submits a request for preclaim assistance on which any required information is missing, incomplete, or inaccurate, the guarantor may attempt to obtain the necessary information from its own system or request the information from the lender. The lender must provide any requested information or resubmit any rejected preclaim request within the time frame established by the guarantor. If a lender is unable to provide the requested information within the guarantor's established time frames, the loan may be subject to an interest penalty if a claim is later filed and paid.

October 1, 1998
The interest rate formulas are prescribed by the Temporary Student Loan Provisions of the Transportation Equity Act for the 21st Century for Stafford and PLUS loans first disbursed on or after July 1, 1998, but before October 1, 1998, are carried forward with the enactment of the Higher Education Amendments of 1988.

The following provisions of the Higher Education Amendments of 1998 are effective for Consolidation loan applications received by the consolidating lender on or after October 1, 1998:

- For portions of the Consolidation loan attributable to FFELP, FDLP, FISL, Perkins, HPSL, or NSL loans, the interest rate is a weighted average of the interest rates on the loans being consolidated, rounded up to the nearest one-eighth of a percent, not to exceed 8.25%.
- For portions of the Consolidation loan attributable to HEAL loans, the interest rate is variable and is based on the 91-day Treasury bill, auctioned for the quarter ending June 30, plus 3%. (There is no interest rate cap on the HEAL portion.)
- A consolidating lender may decline to consolidate Health Professions Student Loans (HPSL), including Loans for Disadvantaged Students (LDS), Nursing Student Loans (NSL), and Health Education Assistance Loans (HEAL).
- Direct loans may be included in a Federal Consolidation loan, making permanent the provision in the Emergency Student Loan Consolidation Act (ESLCA).
- The portion of a Federal Consolidation loan that repays a subsidized Federal Stafford or subsidized Federal Direct Stafford loan is eligible for interest subsidy during periods of authorized deferment, making permanent the provision in the ESLCA.

October 1, 1998 (continued)

- A Consolidation loan borrower may receive another Federal Consolidation loan if the borrower obtains a new eligible loan after the date of the original Consolidation loan. All outstanding eligible loans may be consolidated, including loans made prior to any previous Consolidation.

- A borrower with loans in a default status must not be subject to a judgement secured through litigation or an order of administrative wage garnishment on a Title IV loan.

- A borrower or married couple with FFELP loans held by multiple holders may request consolidation from any participating consolidation lender, regardless of whether the consolidating lender is a holder of any of the borrower's loans.

For Consolidation loans made from applications received during the period beginning October 1, 1998, through January 31, 1999, inclusive, the interest payment rebate fee is equal to .62% per annum of the unpaid principal and accrued interest of the loans.

The Higher Education Amendments of 1998 changed some borrower and student eligibility requirements, effective for loan applications certified by the school on or after October 1, 1998, as follows:

- A student must certify, as part of the Free Application for Federal Student Aid (FAFSA), a statement of educational purpose. A PLUS loan borrower must continue to certify a statement of educational purpose by signing and submitting the application and promissory note to the lender or school.

- A student who has completed in a home school setting a secondary education that is recognized as equivalent to a high school diploma under applicable state law is considered to have completed high school for purposes of Title IV eligibility.

- A student enrolled in coursework, offered in part or totally through telecommunications by a school, will be considered to be enrolled in correspondence courses *unless* all of the following criteria are met:

  - The school offers less than 50% of all courses by telecommunications or correspondence, and the student's coursework is part of a one-year or longer program leading to a recognized certificate or part of a recognized associate, baccalaureate, or graduate degree program.

  - The school offers recognized associate, baccalaureate, or graduate degrees for 50% or more of its programs.

  - The school is not an institution or school described in section 521(4)(C) of the Carl D. Perkins Vocational and Applied Technology Education Act.

- Citizens of any one of the Freely Associated States (i.e., The Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau) are not eligible for FFELP funds at *any* participating school, but may be eligible for other types of Title IV aid.

The Higher Education Amendments of 1998 modified cohort default rate appeal criteria, as follows:

- If a school's cohort default rate or loss of FFELP eligibility appeal based on exceptional mitigating circumstances, erroneous data, or improper loan servicing or collection is unsuccessful, the school is required to pay, to the Department, the amount of interest, special allowance, reinsurance, and any related payments made by the Department (or which the Department is obligated to make) with respect to FFELP loans made to students attending or planning to attend the school during the pending appeal.

- A school may appeal its loss of FFELP eligibility on exceptional mitigating circumstances by demonstrating that its participation rate index is equal to or less than 0.0375 for any one of the three most recent fiscal years for which data is available.

October 1, 1998 (continued)

- A school may appeal its loss of FFELP eligibility on exceptional mitigating circumstances based on educating low-income students by providing documentary evidence that, for a 12-month period that ended during the 6 months immediately preceding the fiscal year for which the cohort of borrowers used to calculate the school's cohort default rate is determined, at least two-thirds of the students, enrolled on at least a half-time basis meet either of the following criteria:

  - The student is eligible to receive a Pell Grant that is at least equal to one-half of the maximum available Pell Grant based on the student's enrollment status.

  - The student has an adjusted gross income that is less than the poverty level, as determined by the Department of Health and Human Services. (Please note that the adjusted gross income of a dependent student equals the adjusted gross income of the student's parents plus the adjusted gross income of the student).

- If a school appeals its loss of FFELP eligibility on exceptional mitigating circumstances based on educating economically disadvantaged or low-income students, both degree- and non-degree-granting schools can add students who entered active duty in the U.S. Armed Forces to the numerator in the calculation of their respective completion and placement rates. For non-degree-granting schools, students or former students for whom the school is the employer should not be included in the numerator of the placement rate calculation.

- In a cohort default rate or loss of FFELP eligibility appeal based on improper loan servicing or collection, the Department must ensure that a school has access for a reasonable period of time, not to exceed 30 days, to a representative sample of the relevant loan servicing and collection records used by a guarantor in paying default claims or by the Department in determining a school's default rate in the loan program under part D of this title. If a school proves, during the appeal process, that a loan or loans defaulted due to improper loan servicing or collection, the Department will adjust the numerator and denominator of the school's FFELP, FDLP, or weighted average cohort default rate based on statistical inference from the appropriate representative sample.

Except for school appeals of FDLP and weighted average cohort default rates on the basis of improper loan servicing or collection which take effect on July 1, 1999, all of the above changes are effective for school cohort default rates published on or after October 1, 1998.

Borrowers whose Consolidation loan applications are received by lenders on or after October 1, 1998, must use an addendum to the Loan Consolidation Application and Promissory Note. This addendum incorporates changes that resulted from the Emergency Student Loan Consolidation Act of 1997, and that were carried forward with the enactment of the Higher Education Amendments of 1998.

Lenders are permitted to pay origination fees on both subsidized *and unsubsidized* Stafford loans on the borrower's behalf. This change is effective for unsubsidized Stafford loans first disbursed by the lender on or after October 1, 1998.

A borrower is not required to request a mandatory forbearance in writing. This change is effective for mandatory forbearances granted by the lender on or after October 1, 1998.

Initial and repayment disclosure information must include the lender's telephone number and, at the lender's option, an electronic address from which the borrower can obtain additional loan information. This change is effective for initial and repayment disclosures issued by the lender on or after October 1, 1998.

Generally, a lender is exempt from the annual audit requirement for any fiscal year subject to audit in which the lender originated or held $5 million or less in FFELP loans.

A bank [as defined in section 3(a)(1) of the Federal Deposit Insurance Act] that is a wholly-owned subsidiary of a tax-exempt, nonprofit foundation [as described in section 501(c)(3) of IRS Code of 1986, and exempt from taxation under section 501(1) of the Code], for purposes of making FFELP loans only to undergraduate students aged 22 or younger, provided the bank's FFELP portfolio does not exceed $5 million, is considered eligible to participate in the FFELP.

The specific prorated subsidized Stafford loan limits of $1750, $875, and $0, and the specific prorated unsubsidized Stafford loan limits of $2500, $1500, and $0, are no longer applicable to first and second year undergraduate student whose program, or the remainder of the program, is less than one academic year. The prorated limits for these students is determined as a ratio of the student's program or remainder of the student's program (as measured in credit or clock hours) to a full academic year, multiplied by the applicable annual loan limit for a full academic year. This change is effective for loan applications certified by the school on or after October 1, 1998.

A school with a cohort default rate of less than 10% for each of the three most recent fiscal years for which data is available may schedule loans to be disbursed in single installments, if the loan is for a period of enrollment that is not more than a single semester, trimester, quarter, or for a school without standard terms, not more than 4 months. A loan made to a student enrolled in a study-abroad program may be made in a single disbursement if the eligible school at which the student will receive course credit for the study-abroad program has a cohort default rate of less than 5%. These exceptions are applicable to disbursements scheduled by the school to be made on or after October 1, 1998.

A school with a cohort default rate of less than 10% for each of the three most recent fiscal years for which data is available are exempt from delayed delivery provisions. This change is effective for disbursements scheduled by the school to be made on or after October 1, 1998.

All FFELP borrowers—regardless of the date on which their first funds were disbursed or their outstanding indebtedness—are permitted to change their selection of repayment schedule annually. A lender must comply with an eligible borrower's request at least once every 12 months. The change is effective for borrower requests received by the lender on or after October 1, 1998.

The requirement for a Plan for Doing Business and the associated audits applicable to purchasing programs of a governmental entity or nonprofit organization that makes or purchases FFELP loans with tax-exempt obligations, are eliminated. This change is effective retroactively to the date a lender's Plan for Doing Business was approved by the Secretary or Governor. A lender may not pursue any action against the Secretary for any amounts paid or offset by the Secretary based on a final settlement agreement that was entered into prior to July 1, 1998, and that resolves any audit or program review violations that were identified based on provisions in effect at the time of the audit.

A Stafford borrower with a loan in a grace period, or with a loan in an in-school status that would subsequently enter a grace period, who is called or ordered to active duty, is entitled to a military extension of the grace period for a period not to exceed 3 years. To qualify for this extension, the borrower must be called or ordered to active duty, on or after October 1, 1998, from a reserve component of the U.S. Armed Forces for a period in excess of 30 days.

A new borrower from July 1, 1987, to June 30, 1993, is no longer required to obtain a new loan for a half-time enrollment period that is to be covered by an in-school deferment. This change is effective for in-school deferments granted by the lender on or after October 1, 1998.

A lender must determine the eligibility of a borrower—or, as applicable, the dependent student—for an in-school deferment based upon the receipt of information that indicates the borrower is enrolled on at least a half-time basis. If an in-school deferment is granted by the lender and the borrower has not requested the deferment, the lender must notify the borrower of the in-school deferment and of the option to continue paying on the loan. This change is effective for in-school deferments granted by the lender on or after October 1, 1998.

A lender may grant a forbearance for a period that does not exceed 60 days if the lender determines it is warranted in order to collect or process supporting documentation following a borrower's request for deferment, forbearance, a change in repayment plan, or loan consolidation. If such supporting documentation is not received within 60 days, the lender must resume servicing activities on the 61st day. The lender must not capitalize interest that accrues on the borrower's loan during this period of administrative forbearance. However, the lender may receive documentation or information that results in the granting of a deferment or other forbearance type that would be concurrent with this period and for which capitalization is permitted. These changes are effective for administrative forbearance granted by the lender on or after October 1, 1998.

The Higher Education Amendments of 1998 implemented the Loan Forgiveness Program for Teachers. Under this program, effective for new borrowers with Stafford loans on or after October 1, 1998, the Department repays a portion of an eligible borrower's Stafford loan obligations.

October 7, 1998
President Clinton signed into Law the Higher Education Amendments of 1998, which reauthorize the federal student financial assistance programs.

A consumer finance company subsidiary of a national bank that acted as a small business lending company (as defined in regulations prescribed by the Small Business Administration) through one or more subsidiaries, is eligible to participate in the FFELP, provided the bank's direct and indirect subsidiaries together must not have as their primary consumer function the making or holding of education loans.

A lender must offer an extended repayment schedule of up to 25 years to each new borrower who accumulates a total of more than $30,000 in loans first disbursed on or after October 7, 1998.

October 8, 1998
Title 11 of the U.S.C. (the bankruptcy code) is revised to eliminate bankruptcy discharge on chapter 7, 11, 12, and 13 bankruptcies for FFELP borrowers in repayment for 7 years. The bankruptcy code continues to allow discharge for undue hardship. This change is effective for loans on which a borrower files a petition for bankruptcy on or after October 8, 1998.

The Higher Education Amendments of 1998 implemented the Loan Forgiveness Demonstration program for Child Care Providers. If funding is made available under this program, effective for new borrowers with loans first disbursed on or after October 8, 1998, the Department repays up to 100% of a borrower's Stafford loan obligations.

November 1998
The Department released Dear Colleague Letter GEN-98-25, which provided detailed information regarding the introduction of the Master Promissory Note (MPN) for Federal Stafford Loans in the Federal Family Education Loan Program. The MPN form will be first available for the 1999–2000 academic year (for loan periods beginning on or after July 1, 1999), and, beginning with the 2000–2001 academic year, will be the only promissory note approved for FFELP Stafford Loans. The MPN is a promissory note under which the borrower may receive loans for either a single period of enrollment or multiple periods of enrollment.

H.2
History of Excess Interest Rebates and Variable Interest Rate Conversions

In 1986 Congress authorized a new interest rate for Stafford loan borrowers, creating a loan that accrues interest at a maximum of 8% for the in-school and grace periods, and for the first 48 months of repayment. On the first day of the 49th month of repayment, the loan converts to a maximum interest rate of 10% and continues the 10% accrual until the loan is paid in full.

Congress anticipated that there would be periods over the long life of the Stafford loans where the 10% rate might exceed substantially the market interest rates. With a goal of protecting student borrowers from paying excessively high interest rates, Congress created a process that would require lenders to "rebate" to the borrower any "excess" interest earnings on the loan after 48 months of repayment, if that interest exceeds the T-bill rate plus 3.25%.

Following is a brief chronology of excess interest rebates (also called windfall profit rebates) and the process of variable interest rate conversion into which it evolved.

1986

October 17, 1986
The Higher Education Amendments of 1986 create the 8%/10% interest rate for loans and a requirement to refund interest to the borrower if the applicable interest rate on such loans exceeds the T-bill rate plus 3.25%.

Rebates are:

- Applicable only when the interest rate on the loan is 10%. Rebates are to be calculated and applied even if the lender is accruing interest at an actual interest rate of less than 10%.
- Paid only to the borrower even if the Department paid interest subsidy for the borrower during the period.
- Based on the quarter-ending principal balance of the loan.
- Applied to the loan only at year-end if the loan has a principal balance outstanding at year-end.
- Not applicable to loans on which the borrower is more than 30 days delinquent on December 31 of the year for which they are calculated.

1988

July 1, 1988
New borrowers receiving their first Stafford loans for periods of enrollment beginning on or after July 1, 1988, sign promissory notes for the 8%/10% rate and are subject to that rate for all subsequent Stafford loans received.

1992

July 23, 1992
The Higher Education Amendments of 1992 expanded rebate provisions, applying rebates to all Stafford loans first disbursed at "fixed" rates on or after July 23, 1992.

Rebates are now:

- Applicable to all Stafford loans first disbursed on or after July 23, 1992, at fixed interest rates of 7%, 8%, 9%, and to the first loan made at 8%/10% to a new borrower on or after July 23, 1992. Rebates are now applicable based on the loan's maximum interest rate, even if the lender was accruing interest at a lesser rate.

- Made to the Department if subsidized interest is paid on loans made under the new provisions during a period in which rebates are due.

- Calculated quarterly and applied annually, based on the loan's balance on December 31.

- Applicable when the T-bill rate plus 3.1% is less than the applicable interest rate.

1993

December 20, 1993
The Technical Amendments of 1993 provided for the conversion of loans subject to excess interest rebates to a variable interest rate.

The new legislation requires that:

- Loans previously subject to rebate provisions be converted to an annual variable interest rate.

- Variable-rate loans may be capped at the applicable interest rate for the loan.

- Loans be converted to the annual variable interest rate no later than January 1, 1995.

- Rebates processed for periods before the conversion to variable rate be processed based on the quarterly average principal balance of the loan.

- Lenders that have not yet provided rebates retroactively convert loans subject to rebate provisions to a variable interest rate rather than calculate and apply rebates.

- If the loan is more than 30 days delinquent as of December 31, the rebate on the loan, if applicable, is to be made to the Department.

Processing Options

Based on the preceding legislative provisions, lenders had three options for providing an interest break to their Stafford loan borrowers:

1. Lenders may process rebates through year-end December 1992 or 1993 then calculate the variable rate conversion and apply it by January 1995;

2. Lenders may retroactively reprocess the loans as variable interest rates without rebates by using the 91-day T-bill rate for the retroactive adjustments and applying the "excess interest" calculated as a credit. The conversion must be completed by January 1995.

3. Lenders that have processed rebates may reverse those rebates and retroactively convert the loans to the variable rates.

Notes and Cautions

Several provisions are applicable to the rebate/variable interest rate conversion process:

- A lender that has already applied rebates for year-end 1992 need not provide rebates to the Department if the borrower's loan was more than 30 days delinquent on December 31, 1992. However, even if the lender had calculated and provided rebates for year-end 1993, if the borrower's loan was more than 30 days delinquent on December 31, 1993, the lender must provide rebates to the Department on those loans for which the rebate was not made to the borrower.

- After January 1, 1995, for loans accruing at 8%/10% that are eligible for conversion to a variable interest rate conversion only when the loan reaches the 10% accrual, the lender must convert the loan to a variable interest rate on the first day of the 49th month of repayment. For loans subject to rebates and interest-rate conversion only at 10%, the variable rate is calculated based on the T-bill rate plus 3.25%.

- Variable interest rates change annually and are effective from July 1 of each year to the following June 30.

- For fixed-rate loans that have already been converted to a variable rate, borrowers must have been notified that the interest rate on the loan changed to a variable rate. The notice was to have been provided no less than 30 days before the rate change occurred. The borrower could not refuse the interest rate conversion.

- For loans subject to variable rates only when the applicable interest rate changes to 10%, the lender must provide notice to the borrower no less than 30 days before the date on which the loan will convert to the variable interest rate.

SUMMARY OF VARIABLE-RATE CONVERSION PROVISIONS

Loans Subject to Conversion	Annual Variable Interest Rates		Quarterly Variable Interest Rates	
Higher Education Amendments of 1986:	7/1/93 through 6/30/94:	**6.37%**	Quarter ending 9/30/92:	**7.03%**
	7/1/94 through 6/30/95:	**7.58%**	Quarter ending 12/31/92:	**6.39%**
8%/10% Stafford loans first disbursed before July 23, 1992, when such loans are accruing at the 10% interest rate.	7/1/95 through 6/30/96:	**9.07%**	Quarter ending 3/31/93:	**6.42%**
	7/1/96 through 6/30/97:	**8.41%**	Quarter ending 6/30/93:	**6.30%**
	7/1/97 through 6/30/98:	**8.41%**	Quarter ending 9/30/93:	**6.30%**
	7/1/98 through 6/30/99:	**8.41%**	Quarter ending 12/31/93:	**6.33%**
8%/10% Stafford loans first disbursed on or after July 23, 1992, but before October 1, 1992, when such loans are accruing at the 10% interest rate, to borrowers who had no outstanding FFELP loans on the date the promissory note was signed.			Quarter ending 3/31/94:	**6.39%**
			Quarter ending 6/30/94:	**6.59%**
			Quarter ending 9/30/94:	**7.40%**
			Quarter ending 12/30/94:	**7.88%**
			Quarter ending 3/31/95:	**8.71%**
Higher Education Amendments of 1992:	7/1/93 through 6/30/94:	**6.22%**	Quarter ending 9/30/92:	**6.88%**
	7/1/94 through 6/30/95:	**7.43%**[1]	Quarter ending 12/31/92:	**6.24%**
Stafford loans first disbursed at a fixed rate (7%, 8%, 9%, and 8%/10% loans when accruing at 8% and 10%) on or after July 23, 1992, to borrowers who had outstanding FFELP loans on the date the promissory note was signed.	7/1/95 through 6/30/96:	**8.92%**[2]	Quarter ending 3/31/93:	**6.27%**
	7/1/96 through 6/30/97:	**8.26%**[2]	Quarter ending 6/30/93:	**6.15%**
	7/1/97 through 6/30/98:	**8.26%**[2]	Quarter ending 9/30/93:	**6.15%**
	7/1/98 through 6/30/99:	**8.26%**[2]	Quarter ending 12/31/93:	**6.18%**
			Quarter ending 3/31/94:	**6.24%**
			Quarter ending 6/30/94:	**6.44%**
			Quarter ending 9/30/94:	**7.25%**[1]
			Quarter ending 12/30/94:	**7.73%**[1]
			Quarter ending 3/31/95:	**8.56%**[2]

[1] Because the variable rate for Stafford loans in this category may not exceed the original interest rate, this variable interest rate does not apply to Stafford loans first disbursed at a fixed 7% interest rate, which are capped at 7%.

[2] Because the variable rate for Stafford loans in this category may not exceed the original interest rate, this variable interest rate does not apply to Stafford loans first disbursed at a fixed 7% or 8% interest rate, which are capped at 7% and 8%, respectively.

- Adjustments from the rebate or variable interest rate conversion that result in a refund of subsidized interest to the Department must be included in the ED Form 799 no later than the reports filed for December 31, 1994, and March 31, 1995, respectively.

- Loans on which a claim has been filed with the guarantor for claim payment need not be converted to variable interest rates.

- Lenders are not permitted to adjust special allowance billings for loans for which the applicable interest rate is retroactively revised.

- Lenders for which an accurate historical record of the loan's balances is not available may calculate and provide rebates and conversion information based on the best data available.

- For loans that have been sold or bought during the period for which rebates and/or interest rate conversions are applicable, each holder of the loan is responsible for making the adjustments for periods during which they held the loan.

- When completing a Consolidation loan verification certificate for a loan to which the interest rate conversion is applicable, the variable rate should be specified.

- If a loan was filed as a claim with the guarantor, and is subsequently recalled or repurchased, the lender must convert the loan to the variable rate. If the lender is repurchasing the loan because the loan should not have been filed as a claim or because the loan is a nondischargeable bankruptcy, the interest rate must be adjusted retroactively to the point at which the loan first became eligible for the rebate or interest rate conversion.

If the loan is being recalled or repurchased voluntarily by the lender, the lender need only apply adjustments from the day on which the loan is repurchased.

- Loans that are rehabilitated must have the interest rate reset as of the date the rehabilitated loan is purchased by the lender.

- Loans on which the guarantee is lost but that are subsequently cured must have the interest rate reset as of the date of the cure. Lenders have the option of retroactively making adjustments for periods before the cure.

H.3 History of Ability-to-Benefit Provisions

There have been numerous publications regarding ability-to-benefit (ATB) provisions over the past years: some providing clarification or definition, some revising previous guidance. Following is a compilation of ATB guidance to provide a historical reference regarding this evolving process.

H.3.A. Ability-to-Benefit Requirements

ATB requirements vary in federal law and regulation based on the period of enrollment for which the loan was issued.

Periods of Enrollment Beginning January 1, 1986, to June 30, 1987

The school was required to develop and enforce consistent criteria to determine if regular students who did not have high school diplomas or GEDs and who were beyond the age of compulsory attendance had the ability to benefit from the school's training.

Periods of Enrollment Beginning July 1, 1987, to June 30, 1991

The school was required to use one of the following criteria for determining the student's ability to benefit:

- The student received a GED prior to his or her completion of the program of study, or by the end of the first year of the program, whichever was earlier.

- The student was counseled before admission to the program and successfully completed the school's remedial program or developmental education program that did not exceed one academic year or the equivalent of one academic year.

- The student passed a nationally recognized, standardized, or industry-developed ATB test, subject to criteria developed by the school's accrediting agency.

- If the student failed the ATB test, he or she successfully completed the school's program of remedial or developmental education that did not exceed one year or the equivalent of one academic year.

The school could use more than one method as described above to determine a student's ability to benefit. However, if the school's accrediting agency provided no criteria for the ATB tests, or if the school was not affiliated with an accrediting association, the school could not administer, or have administered, a test as described under the third option noted above.

GED-Specific Guidance
In cases where the student was to receive his or her GED prior to completing the program of study or first year of that program, whichever was earlier, the school must have documented the student's completion of the GED and that no Title IV funds were used for studies toward the GED. In cases where the student did not complete the GED as required, the student lost his or her eligibility for Title IV aid. The school was not liable for the release of Title IV funds to the borrower, but the borrower remained responsible for the repayment of any loan funds received prior to his or her loss of eligibility. The school could not release Title IV funds to any student who completed the initial program of study or first year of a program for which it could not document the receipt of his or her GED.

Remedial Work
Students could be enrolled for remedial work, and courses for that remediation could be covered by Title IV funds, provided the remedial courses complied with the requirements of 34 CFR 668.20, including:

- The student must have been enrolled in an eligible program of study at an eligible institution.
- The course or courses must have been necessary for the student to complete a program of study leading to a degree or certificate.
- The courses must not have been a part of a program of instruction leading to a high school diploma or GED.
- The course work did exceed one academic year.
- The course work was not at such a low level of academic achievement that, at the end of the coursework, the student would remain at a level that was below the level needed to pursue successfully a degree or certificate program.

The school must have documented its decision to require the student to enroll in remedial work, prescribed a program of work to meet the student's need that did not exceed one academic year in length, and documented its determination that the student did successfully complete the program. If the student failed to complete the course of study, or was not successful in that course of study, the school could not deliver additional Title IV funds to that student.

Periods of Enrollment Beginning before July 1, 1991

The school is considered to have violated ATB provisions in either of the following cases:

- The school substantially failed to comply with its accrediting agency's standards for ATB testing.
- If no accrediting agency standards existed, the school substantially failed to comply with the test publisher's requirements for the use of the test.

Periods of Enrollment Beginning July 1, 1991, to July 22, 1992

A student who was not a high school graduate or did not have a GED at the time of his or her enrollment must have passed an independently administered ATB test approved by the Department before the student's receipt of Title IV aid.

Students were not eligible for SLS loans if they had not received high school diplomas or GEDs. Schools were prohibited from certifying loan applications for SLS loans until students had obtained high school diplomas or GEDs.

ATB testing must have been completed before the student received any Title IV funds.

The Department issued lists of tests approved for ATB purposes in a series of publications, including the December 19, 1990, *Federal Register* and DCLs GEN-91-1, GEN-91-8, and GEN-91-20.

Periods of Enrollment Beginning on or after July 23, 1992

A student who was not a high school graduate or did not have a GED at the time of enrollment must have met one of the following standards before receiving any Title IV aid:

- The student must have achieved a score specified by the Department on an independently administered ATB test that was approved by the Department.
- The student must have been considered to have had the ability to benefit from the school's training in accordance with a process prescribed by the state in which the school is located.

A student who was admitted initially under ATB provisions and who dropped out or withdrew from classes must have been reevaluated under the provisions in effect at the time of his or her reenrollment before the student may have been readmitted.

Effective for Periods of Enrollment Beginning on or after July 1, 1996

Final regulations for these provisions were published in December 1995, and were effective July 1, 1996.

Schools may use tests and test scores approved before July 1, 1996, for a period of up to 60 days after the first approved test and test score is published in the *Federal Register*. Also, a student whose eligibility was determined under the old ATB rules need not be retested under the new provisions unless the student withdraws from the school and later reenrolls, in which case the student must meet the ATB rules in effect at the time of his or her reenrollment.

A student without a high school diploma, or one who did not have a GED at the time of enrollment, must have met one of the following standards before receiving any Title IV aid:

- Achieved a passing score on an independently administered test that has been approved by the Department. Note that the "passing score" will also be defined by the Department. If the student is required to pass an independently administered test, the student must have obtained a passing score not more than 12 months before the receipt of Title IV funds.
- Obtained a passing score on a Department-approved state test or assessment.
- Enrolled in an eligible institution (located in a State) that has been approved by the Department.

A school may be liable for Title IV funds delivered to a student admitted under ATB provisions if the school uses a test administrator who is not independent of the school at the time the test is administered, if the school interfered with the testing process in such a way as to compromise the test's integrity, or if the school cannot document that the student received a passing score.

H.3.B.
Ability-to-Benefit Provisions

Testing

Each student being admitted under ATB testing provisions must have been administered a test in compliance with the school's nationally recognized accrediting agency's criteria. For students admitted for periods of enrollment prior to July 1, 1991, the test could be administered by the school or any independent administrator. The school was required to maintain a record of that test and the student's score on the test. If the school administered the test itself, it was required to maintain a copy of the actual test as part of its recordkeeping requirements. If the school did not administer the test, a record of the results of that test satisfies the recordkeeping requirements

Testing Violations

The following violations of testing rules are deemed sufficient to invalidate the ATB test results:

- A test that was required to be administered by an independent test administrator was not administered by an independent administrator.
- A school permitted a student who failed an ATB test to retake the test earlier than the minimum time frames for that test, or more frequently than permitted for that test.
- A school allowed more time for a student to complete the ATB test than was permitted.
- A school considered a student to have passed an ATB test even though the student did not achieve the minimum passing score permitted under statute, regulation, and the Department guidance in effect at that time.
- The school administered only a part of a multipart test, unless that was permissible under rules for that test.
- For ATB tests given for periods of enrollment beginning on or after July 1, 1991, the version of the test that was used by the school was not approved by the Department and was not administered in a manner such that it complied substantially with the test publisher's rules for its use.
- The school supplied answers to the test or permitted the students taking the test to discuss the answers among themselves, in violation of the test rules.

Immaterial Violations

The Department of Education identified three violations of an accrediting agency's or test publisher's requirements that do not have a material effect on the student's test scores and that do not justify a loan discharge:

- Use of a photocopied ATB test.
- Use of an ATB test version that was obsolete by less than one year.
- Use of an ATB test that was approved by the Department but not approved by the school's accrediting agency.

Foreign Language ATB Testing

If the ATB test was administered in a foreign language and subsequent courses were conducted in English, the student may qualify for an ATB discharge if the proper test was not administered. There are multiple tests available for non-English speaking students: tests for students enrolled in an English as a Second Language (ESL) course, tests where ESL courses are a component of the overall course of study, and tests for non-English speaking students who will enroll in regular academic or vocational courses. If the appropriate test was not administered to match with the student's intended course of study, the student may qualify for ATB discharge.

Remedial Work

For a student enrolled in a course of study with a period of enrollment beginning in the period July 1, 1987, to July 1, 1991, the school is considered to have complied with the ATB provisions if the school ensured that the student enrolled in and successfully completed the school's program of remedial or developmental education within one academic year. A student also must have been counseled prior to admission and have failed an ATB test administered by the school.

Documentation that the Student Was Unable to Get a Job

A key component of demonstrating ability to benefit is whether the student subsequently was unable to obtain a job in the field for which the course of study at the school provided training. To document this inability to obtain a job:

- If the student did *not* complete the program of study, the student must certify that he or she did not find employment in that occupation.
- If the student completed the program of study and claims that he or she was unable to find employment in that occupation, then the student must provide evidence that he or she made a reasonable attempt to obtain that employment. A reasonable attempt could be considered three separate attempts to obtain employment, documented by a list of the companies at which the student applied, the address of each potential employer, the date that the potential employer was contacted, the position for which the student applied, and the reason given by the potential employer for not hiring the student.

Applicability of Provisions Regarding Student's Age, Criminal Record, etc.

The regulatory provisions regarding the student's eligibility for loan discharge due to his or her inability to obtain employment in an occupation due to his or her age, physical or mental condition, or criminal record are applicable to all students—regardless of the loan period start date or any requirement imposed on the school to determine the student's ability to benefit.

Documentation of a Condition that Prohibited Employment

If the student claims that he or she was subject to a condition that prohibited employment in the position for which he or she trained, that condition and the state's prohibition regarding employment must be documented. A loan is not eligible for discharge if it can be proven that the student was asked if such a condition existed and the student did not disclose that condition.

Group Discharges

In some cases discharge may be authorized for a group of borrowers who demonstrate that they belong to a particular cohort of students defined by the Department. All borrowers must request discharge and sign a sworn statement as prescribed in regulation. The Department will advise guarantors when a situation exists where it appears that an entire group of borrowers may be eligible for false certification discharge.

The Department requests that interested parties notify it of special situations where such an approach might be appropriate. Such a situation would be one in which a school appears to have committed "serious and pervasive violations" of regulations.

Borrower Fraud

If a guarantor suspects, but cannot prove, that a borrower has made false statements on a discharge request, the incident should be reported to the Department of Education's Inspector General.

Notification to the Department of Education

When a guarantor becomes aware that a school may have falsely certified a student's eligibility, that guarantor is required to notify the Department's Guarantor and Lender Review Branch in the regional office responsible for the state in which the school is located.

Rules for Discharge

In order to have a loan discharged based on improper determination of the student's ability to benefit, the following criteria must be met:

- The loan must have been disbursed in whole or in part on or after January 1, 1986.

- The student must certify under penalty of perjury that the school failed to determine or improperly determined his or her ability to benefit from the school's training; and

- If the student withdrew from the school, the student must certify that he or she did not obtain employment in the field for which the school's course of study was intended; or,

- If the student completed the course of study, the student must certify that he or she made a reasonable attempt and was unable to obtain employment in the field for which the course of study was designed, or obtained employment in that field only after receiving additional training from another school; or

- The student must certify that he or she did not, at the time of enrollment, meet the legal requirements for employment in the student's state of residence in the field for which the course of study was preparatory because of a mental or physical condition, age, or criminal record, or other reason accepted by the Secretary.

Absence of Documentation/Evidence

A borrower's statement that he or she (or, in the case of a PLUS loan, the student) was "falsely certified" or "improperly tested" would not be considered sufficient evidence of the borrower's entitlement to discharge if it is not supported by some evidence that the student was admitted to a course of study to which he or she should not have been admitted as a result of improper administration of ATB provisions.

The guarantor is expected to obtain documentation and records from any available public or private agency which reviewed or had oversight responsibilities for the school. If the guarantor determines that evidence or documentation does not exist, it is the borrower's responsibility to substantiate the claim with substantive persuasive evidence.

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