COMMON MANUAL

*Unified Student Loan Policy*

July 2012

Dear Partner:

On behalf of the federal student loan guarantors, I am pleased to provide you with the 2012 *Common Manual: Unified Student Loan Policy.* We have worked diligently again this year to provide you with the most up-to-date resource on student loan policy. Throughout the year, the *Manual* has been updated to reflect 24 policy changes. Some were mandated by federal law, some by regulatory changes or sub-regulatory guidance, and some based on guarantor policy. However a change comes about, it's critical that our lender, servicer, and school colleagues have a current resource to turn to, and we hope you will again find the *Manual* is that resource.

I want to thank the members of the *Common Manual* Policy Committee and the guarantors for whom they work for their efforts in ensuring that the *Manual* contains the most current information to assist our lender, servicer, and school colleagues in administering the Federal Family Education Loan Program (FFELP).

In addition to the critical policy changes, we added a new feature that I want to highlight. If you're familiar with the *Manual*, you know that one of the best features is the hyperlinks. As you're using the electronic versions of the *Manual*, you are able to link to the law, regulation, or sub-regulatory guidance that applies to a particular paragraph or section. This year's *Manual* has been expanded to also include hyperlinks to Direct Loan regulations when the policy being explained is identical in both the FFELP and Direct Loan regulations. As a result, not only will you be able to link to the applicable school regulations in 34 CFR 668, the FFELP regulations in 34 CFR 682, but you'll also be able to link to the Direct Loan regulations in 34 CFR 685 when applicable. We hope you find this helpful when researching a policy's origin and applicability to the borrowers you serve.

We've made a few other changes this year to the versions of the *Manual* that we're providing. During this period of economic challenge, cost savings are increasingly important. With that in mind, the *Common Manual* guarantors made decisions this year that allow us to continue to provide the *Manual* to you at no cost. First, the e-Collection CD has been discontinued. Although used by some clients, the continuation of and costs associated with producing the e-Collection could no longer be justified. In addition, we discontinued the use of a professional printer as the *Manual* will only be made available in an electronic format. That said, if you prefer to have a printed version, please contact your designated guarantor to see if that option may still be available.

Finally, as a reminder, the *Common Manual* website continues to be the best source to obtain the most up-to-date version of the *Manual*. Throughout the year as changes are made, we provide an *Integrated Common Manual (ICM)* that allows the reader to see the sections as they have been revised. The ICM is produced four times a year — in September, November, February, and April — and is available on the CM Website at **www.commonmanual.org**.

As we move forward into another year of regulatory changes to the loan programs, we plan to keep the *Manual* updated so that you continue to have a useful resource at your fingertips. Please feel free to contact your designated guarantor with any questions you may have concerning the *Manual* or its content.

Sincerely,

Nancy Masten
Chair, *Common Manual* Governing Board (2011-2012)

This page intentionally left blank.

COMMON MANUAL

*Unified Student Loan Policy*

# Summary of Changes Approved through April 2012

This summary lists changes made since the 2011 Annual Update of the *Common Manual*. Changes made before the 2011 Annual Update are noted in Appendix H.

| Common Manual Section | Description of Change | Effective Date/Triggering Event | Policy/Batch |
|---|---|---|---|
| **Chapter 2: About the FFELP** | | | |
| 2.3.B U.S. Department of Education Publications | Incorporates a definition of "proprietary institution" and "postsecondary vocational institution." Manual text has been revised to use these terms consistently, as applicable, and to ensure the accurate use of existing, defined terms such as "institution of higher education" and "school." Additional corrections of the same nature will be accomplished through the technical editing process. | Retroactive to the implementation of the *Common Manual,* except that provisions regarding a postsecondary program for students with intellectual disabilities are effective July 1, 2010. | 1262/184 |
| 2.3.C Common Forms | Clarifies that if a borrower requests a military service deferment or a post-active duty student deferment form (MIL), the lender should make available to the borrower the appropriate common deferment form. | Requests for military service deferment or post-active duty student deferment form received on or after October 1, 2007. | 1257/181 |
| **Chapter 4: School Participation** | | | |
| 4.1 School Eligibility<br>4.1.A Establishing Eligibility<br>4.1.C Maintaining Eligibility<br>4.1.D Loss of Eligibility | Incorporates a definition of "proprietary institution" and "postsecondary vocational institution." Manual text has been revised to use these terms consistently, as applicable, and to ensure the accurate use of existing, defined terms such as "institution of higher education" and "school." Additional corrections of the same nature will be accomplished through the technical editing process. | Retroactive to the implementation of the *Common Manual,* except that provisions regarding a postsecondary program for students with intellectual disabilities are effective July 1, 2010. | 1262/184 |
| 4.1.C Maintaining Eligibility | Adds information about debt measures for gainful employment programs. | Gainful employment program debt measures implemented by a school on and after July 1, 2012. | 1264/186 |
| 4.1.C Maintaining Eligibility | Adds information about gainful employment debt warnings and sanctions. | §668.7(h) through (l); §668.26(d)(1) and (3); *Federal Register* published on June 13, 2011. | 1265/186 |

| Common Manual Section | Description of Change | Effective Date/Triggering Event | Policy/Batch |
|---|---|---|---|
| 4.2 Administrative Capability Standards | Provides information on the transition from the two-year cohort default rate to a three-year cohort default rate. Beginning in calendar year 2012 with the publication of the official 2009 three-year cohort default rate, a school with a single-year cohort default rate of 30% or greater will be required to establish a default prevention task force to prepare and submit a plan to the Department that identifies factors, establishes steps to improve the default rate, and specifies actions that can improve repayment rates. A school with a three-year cohort default rate of 30% or greater for two consecutive years must revise its plan to implement additional measures and also may be subject to provisional certification.<br><br>As a part of a school's administrative capability standards, in order to maintain eligibility, the school's official CDR must be:<br>• No more than 40% for the most recent fiscal year for which cohort default rates have been issued.<br>• Less than 25% for each of the three most recent fiscal years for which two-year cohort default rates have been issued.<br>• As of 2014, less than 30% for at least two of the three most recent fiscal years for which three-year cohort default rates have been issued.<br>• No more than 15% for Perkins Loans.<br><br>Also a school may challenge a draft three-year cohort default rate on the basis of its participation rate index (PRI), as follows:<br>• Challenge an anticipated loss of eligibility based on a three-year cohort default rate that exceeds 40%, if the school's PRI for that fiscal year was less than or equal to 0.06015.<br>• Challenge an anticipated loss of eligibility based on three consecutive three-year cohort default rates of at least 30% but no more than 40%, if the school's PRI for any of the three years was less than or equal to 0.0625.<br>• Challenge a potential provisional certification based on three-year cohort default rates of at least 30% but no more than 40% in two of the three most recent years, if the school's PRI for either of the two years was less than or equal to 0.0625. | Expansion of the cohort default period from a two-year period to a three-year period beginning with fiscal year 2009. | 1263/185 |
| 4.4.A Preferred Lender Arrangements and Lists | Removes reference to the PLUS loan auction pilot program. | Upon approval by the *Common Manual* Governing Board. | 1255/181 |
| **Chapter 5: Borrower Eligibility** | | | |
| 5.1.B Student Eligibility Requirements | Clarifies that some states issue a secondary school completion credential to home-schooled students. If this is the case in the state in which the student was home schooled, the student must obtain this credential in order to qualify for Title IV aid. If a school's policy permits students to self-certify completion of a secondary school education, the home-schooled student may also self-certify that he or she received this state-issued credential. | Publication date of the 02-03 FSA Handbook, Volume 1.<br><br>For provisions that permit a home-schooled student to self-certify that he or she received a state-issued secondary school completion credential for home-schooled students, publication date of the 03-04 FSA Handbook, Volume 1. | 1266/186 |

| Common Manual Section | Description of Change | Effective Date/Triggering Event | Policy/Batch |
|---|---|---|---|
| 5.1.B Student Eligibility Requirements<br>5.1.C Graduate or Professional Student and Parent PLUS Loan Borrower Eligibility Requirements | Eliminates this exception to the FAFSA completion requirement. All students must complete the FAFSA, even if the only Title IV aid for which they will apply is the parent PLUS loan. | Parent PLUS loans obtained for the 2011-2012 award year. | 1256/181 |
| 5.1.B Student Eligibility Requirements<br>5.10 Required High School Diploma or Equivalent<br>5.11 Ability-to-Benefit Provisions<br>5.11.A Testing ATB Students with Special Needs<br>5.11.B School Liability in ATB Testing | Strikes language from the *Common Manual* that pertains to a borrower obtaining Title IV eligibility by any means other than a high school diploma or its equivalent. | Students first enrolled in a program of study on or after July 1, 2012, who do not have a high school diploma or its equivalent. | 1267/186 |
| **Chapter 6: School Certification** | | | |
| 6.4.A Multiple Disbursements and Low Cohort Default Rate Exemptions | States that for a loan first disbursed on or after October 1, 2011, a school is exempt from delayed delivery of Stafford loans and, under certain conditions, multiple disbursement of Stafford and PLUS loans if the school's official cohort default rate is less than 15% for each of the three most recent fiscal years from which data are available. | For the multiple disbursement exemption, loan disbursements made on or after October 1, 2011.<br>For the delayed delivery exemption, Stafford loans first disbursed on or after October 1, 2011. | 1249/179 |
| 6.6.A Performing Verification Requirements | Notates that the Department will publish annually a potentially changing set of data elements that are subject to verification each award year, and that it may revise applicable verification documentation requirements. Also notates that schools may choose to originate Title IV aid prior to the completion of verification, but prohibits the disbursements of subsidized funds prior to the completion of verification and more clearly states that borrowers who are eligible to receive only unsubsidized Stafford and/or PLUS Loan funds are not subject to verification requirements.<br>Revised verification exemptions are listed. | *Federal Register* published October 29, 2010, pp. 66954 - 66958; *Dear Colleague Letter* (DCL) GEN-11-13. | 1268/186 |
| 6.6.B Use of Professional Judgment to Determine EFC | Requires the school to complete any federally-mandated professional judgment before exercising professional judgment. | Preamble to the *Federal Register* published October 29, 2010, p. 66903. | 1269/186 |
| 6.7 Determining the Amount of Estimated Financial Assistance (EFA) | Deletes references to ACG and National SMART grants in Manual text that discusses a school's responsibility for determining a student's eligibility for federal student aid, including a transfer student.<br>Also aligns the Manual with existing regulations, which state that a school must also determine the amount of a student's scheduled TEACH grant award for the award year for which a TEACH grant is requested and the amount of any TEACH grant funds already delivered to the student for the award year. | For deletion of the reference to the Academic Competitiveness Grant Program and National SMART Grant Program, the 2011-2012 award year.<br>For insertion of a reference to the TEACH Grant Program, July 1, 2008. | 1250/179 |

| Common Manual Section | Description of Change | Effective Date/Triggering Event | Policy/Batch |
|---|---|---|---|
| **Chapter 7: Loan Origination** | | | |
| 7.7.B Multiple Disbursement | States that for a loan first disbursed on or after October 1, 2011, a school is exempt from delayed delivery of Stafford loans and, under certain conditions, multiple disbursement of Stafford and PLUS loans if the school's official cohort default rate is less than 15% for each of the three most recent fiscal years from which data are available. | For the multiple disbursement exemption, loan disbursements made on or after October 1, 2011.<br>For the delayed delivery exemption, Stafford loans first disbursed on or after October 1, 2011. | 1249/179 |
| **Chapter 8: Loan Delivery** | | | |
| 8.7.D Delayed Delivery | States that for a loan first disbursed on or after October 1, 2011, a school is exempt from delayed delivery of Stafford loans and, under certain conditions, multiple disbursement of Stafford and PLUS loans if the school's official cohort default rate is less than 15% for each of the three most recent fiscal years from which data are available. | For the multiple disbursement exemption, loan disbursements made on or after October 1, 2011.<br>For the delayed delivery exemption, Stafford loans first disbursed on or after October 1, 2011. | 1249/179 |
| 8.7.G Delivery to Borrowers in Special Circumstances | Clarifies the applicability of the modular rules to both term-based and non-term-based and clock hour programs of study.<br>Clarifies that for a term-based program offered in modules, if the student withdraws and misses only a portion of a module or modules during a term, but re-enters within that period of enrollment or payment period, the school is not required to recalculate the student's award based on the student's attendance in only a portion of a module. The school must restore the student's original award, and is not required to adjust any award based on the student's attendance in only part of a module. If, however, the student withdraws and does not attend any portion of a module for which he or she was originally scheduled, the school must re-evaluate the student's cost of attendance based on the omitted module(s) and adjust the Title IV aid eligibility prior to awarding additional funds.<br>Clarifies that if the student who is enrolled in a program offered in modules withdraws and confirms at the time of withdrawal his or her intent to resume enrollment within the payment period or period of enrollment, as applicable, and, for a clock-hour or non-term-based program, within 45 days of the date of withdrawal, but fails to return, the withdrawal date is the last day of the student's recorded, eligible academic attendance if the school is considered to be "required to take attendance." At a school that is not required to take attendance, normal rules apply for determining the withdrawal date. | July 1, 2011, for students who withdraw from payment periods or periods of enrollment that begin on or after that date. | 1253/180 |
| 8.7.H Delivery to Transfer Students | Deletes references to ACG and National SMART grants in Manual text that discusses a school's responsibility for determining a student's eligibility for federal student aid, including a transfer student.<br>Also aligns the Manual with existing regulations, which state that a school must also determine the amount of a student's scheduled TEACH grant award for the award year for which a TEACH grant is requested and the amount of any TEACH grant funds already delivered to the student for the award year. | For deletion of the reference to the Academic Competitiveness Grant Program and National SMART Grant Program, the 2011-2012 award year.<br>For insertion of a reference to the TEACH Grant Program, July 1, 2008. | 1250/179 |

| Common Manual Section | Description of Change | Effective Date/Triggering Event | Policy/Batch |
|---|---|---|---|
| **Chapter 9: School Reporting Responsibilities and the Return of Title IV Funds** | | | |
| 9.4 Withdrawal Dates | Clarifies the applicability of the modular rules to both term-based and non-term-based and clock hour programs of study.<br><br>Clarifies that for a term-based program offered in modules, if the student withdraws and misses only a portion of a module or modules during a term, but re-enters within that period of enrollment or payment period, the school is not required to recalculate the student's award based on the student's attendance in only a portion of a module. The school must restore the student's original award, and is not required to adjust any award based on the student's attendance in only part of a module. If, however, the student withdraws and does not attend any portion of a module for which he or she was originally scheduled, the school must re-evaluate the student's cost of attendance based on the omitted module(s) and adjust the Title IV aid eligibility prior to awarding additional funds.<br><br>Clarifies that if the student who is enrolled in a program offered in modules withdraws and confirms at the time of withdrawal his or her intent to resume enrollment within the payment period or period of enrollment, as applicable, and, for a clock-hour or non-term-based program, within 45 days of the date of withdrawal, but fails to return, the withdrawal date is the last day of the student's recorded, eligible academic attendance if the school is considered to be "required to take attendance." At a school that is not required to take attendance, normal rules apply for determining the withdrawal date. | July 1, 2011, for students who withdraw from payment periods or periods of enrollment that begin on or after that date. | 1253/180 |
| 9.5.A Return Amounts for Title IV Grant and Loan Programs<br><br>9.5.B Processing Returned Funds | Deletes any reference to the Academic Competitiveness or National SMART grant programs from text that describes a school's responsibilities to calculate a return of Title IV funds or process a return of unearned Title IV funds.<br><br>Also deletes the glossary definitions the Academic Competitiveness and National SMART grant programs. | HEA §401A(e); §668.19(a)(3); *Federal Register* dated June 23, 2008; DCL P-11-02. | 1270/186 |
| **Chapter 11: Deferment and Forbearance** | | | |
| 11.8.A Eligibility Criteria—Military Service | Removes language that may lead a reader to think that this deferment is only for borrowers who are serving in the military after October 1, 2007. The October 1, 2007, date is only tied to the 180-day post-deferment time frame and is discussed in Subsections 11.8.B and 11.8.C of the *Common Manual.* | Military service deferments granted on or after October 1, 2007. | 1275/187 |
| 11.8.B Deferment Documentation—Military Service<br><br>11.12.B Deferment Documentation—Post-Active Duty Student | Clarifies that if a borrower requests a military service deferment or a post-active duty student deferment form (MIL), the lender should make available to the borrower the appropriate common deferment form. | Requests for military service deferment or post-active duty student deferment form received on or after October 1, 2007. | 1257/181 |
| 11.21.M Natural Disasters, Local or National Emergency, or Military Mobilization | Includes the updated guidance reflected in DCL GEN-10-16 regarding disaster relief waivers. | *Dear Colleague Letter* (DCL) GEN-10-16. | 1271/186 |

| Common Manual Section | Description of Change | Effective Date/Triggering Event | Policy/Batch |
|---|---|---|---|
| 11.21.O Repayment Alignment | Add that lenders must monitor the enrollment status of the dependent student on both the forborne and/or deferred PLUS loan(s) or the lender must find another basis for granting a forbearance on the non-deferred PLUS loan(s). | For PLUS borrowers who have loans first disbursed prior to July 1, 2008, and subsequently obtained loans disbursed on or after July 1, 2008. | 1260/183 |
| 11.24.B Medical or Dental Internship or Residency | No longer states that a borrower in any internship or residency program is eligible to receive a mandatory forbearance for the length of time remaining in the borrower's internship or residency that is required for the borrower to successfully complete his or her degree or to begin professional practice or service. This benefit is only available to borrowers in a medical or dental internship or residency program. | Retroactive to the implementation of the *Common Manual.* | 1259/182 |
| **Chapter 13: Claim Filing, Discharge, and Forgiveness** | | | |
| 13.1.D Claim File Documentation | Acknowledges that some lenders may file electronic documents with the bankruptcy court and requires the lender to include a copy of those electronically filed documents, such as the Proof of Claim, in any claim file that it files. | Claims filed by the lender on or after March 1, 2012, unless implemented earlier by the guarantor. | 1252/180 |
| 13.1.G Additional Documentation Requested by the Guarantor | States that a lender must allow a guarantor or the Department access to the lender's records for inspection and copying to verify the accuracy of the information provided by the lender in the claim request, to verify the right of the lender to receive or retain claim payments, to investigate a borrower's dispute, or to enforce any right acquired by the guarantor or the Department. | Retroactive to the implementation of the *Common Manual.* | 1251/179 |
| 13.8.A Bankruptcy | Acknowledges that some lenders may file electronic documents with the bankruptcy court and requires the lender to include a copy of those electronically filed documents, such as the Proof of Claim, in any claim file that it files. | Claims filed by the lender on or after March 1, 2012, unless implemented earlier by the guarantor. | 1252/180 |
| 13.9.A Teacher Loan Forgiveness Program | Clarifies that a qualified borrower's underlying loans of a spousal Consolidation loan may be eligible for teacher loan forgiveness regardless of the status of the spouse's underlying loans. | Teacher loan forgiveness for new borrowers on or after October 1, 1998. | 1261/183 |
| 13.9.A Teacher Loan Forgiveness Program | Adds information regarding the Department's waiver of the statutory and regulatory requirements for an interruption in required teaching service under the Teacher Loan Forgiveness Program due to the borrower being affected by Hurricane Katrina or Hurricane Rita. The waiver applies to any period beginning on the date of the relevant hurricane and continues through June 30, 2006. | Interruptions in required Teacher Loan Forgiveness Program teaching service for an affected borrower for any period beginning on the date of the relevant hurricane, Katrina or Rita, continuing through June 30, 2006. | 1258/182 |
| **Chapter 15: Federal Consolidation Loans** | | | |
| 15.8 Direct Consolidation Loan Program Treatment of Underpayments and Overpayments | Adds information about the Department's policy on the treatment of underpayments and overpayments made to a borrower's underlying loan holder(s) when a borrower consolidates his or her federal student loans under the Direct Consolidation Loan Program. | Underpayments and overpayments received by loan holders from the Direct Consolidation Loan Program on or after July 1998. | 1254/180 |

| Common Manual Section | Description of Change | Effective Date/Triggering Event | Policy/Batch |
|---|---|---|---|
| **Chapter 16: Cohort Default Rates and Appeals** | | | |
| 16.1 Overview of Cohort Default Rates and Terminology<br>16.3 School Draft Cohort Default Rates and Challenges<br>16.4 School Official Cohort Default Rates, Adjustments, and Appeals<br>16.4.B School Appeals<br>16.5 Consequences of High Official Cohort Default Rates for Schools | Provides information on the transition from the two-year cohort default rate to a three-year cohort default rate. Beginning in calendar year 2012 with the publication of the official 2009 three-year cohort default rate, a school with a single-year cohort default rate of 30% or greater will be required to establish a default prevention task force to prepare and submit a plan to the Department that identifies factors, establishes steps to improve the default rate, and specifies actions that can improve repayment rates. A school with a three-year cohort default rate of 30% or greater for two consecutive years must revise its plan to implement additional measures and also may be subject to provisional certification.<br>As a part of a school's administrative capability standards, in order to maintain eligibility, the school's official CDR must be:<br>• No more than 40% for the most recent fiscal year for which cohort default rates have been issued.<br>• Less than 25% for each of the three most recent fiscal years for which two-year cohort default rates have been issued.<br>• As of 2014, less than 30% for at least two of the three most recent fiscal years for which three-year cohort default rates have been issued.<br>• No more than 15% for Perkins Loans.<br>Also a school may challenge a draft three-year cohort default rate on the basis of its participation rate index (PRI), as follows:<br>• Challenge an anticipated loss of eligibility based on a three-year cohort default rate that exceeds 40%, if the school's PRI for that fiscal year was less than or equal to 0.06015.<br>• Challenge an anticipated loss of eligibility based on three consecutive three-year cohort default rates of at least 30% but no more than 40%, if the school's PRI for any of the three years was less than or equal to 0.0625.<br>• Challenge a potential provisional certification based on three-year cohort default rates of at least 30% but no more than 40% in two of the three most recent years, if the school's PRI for either of the two years was less than or equal to 0.0625. | Expansion of the cohort default period from a two-year period to a three-year period beginning with fiscal year 2009. | 1263/185 |
| **Appendix G: Glossary** | | | |
| Ability-to-Benefit (ATB) | Strikes language from the *Common Manual* that pertains to a borrower obtaining Title IV eligibility by any means other than a high school diploma or its equivalent. | Students first enrolled in a program of study on or after July 1, 2012, who do not have a high school diploma or its equivalent. | 1267/186 |

| Common Manual Section | Description of Change | Effective Date/Triggering Event | Policy/Batch |
|---|---|---|---|
| Academic Competitiveness Grant (ACG)<br>National Science and Mathematics Access to Retain Talent Grant (National SMART Grant) | Deletes any reference to the Academic Competitiveness or National SMART grant programs from text that describes a school's responsibilities to calculate a return of Title IV funds or process a return of unearned Title IV funds.<br>Also deletes the glossary definitions the Academic Competitiveness and National SMART grant programs. | HEA §401A(e); §668.19(a)(3); *Federal Register* dated June 23, 2008; DCL P-11-02. | 1270/186 |
| Institution of Higher Education<br>Postsecondary Vocational Institution<br>Proprietary Institution (of Higher Education) | Incorporates a definition of "proprietary institution" and "postsecondary vocational institution." Manual text has been revised to use these terms consistently, as applicable, and to ensure the accurate use of existing, defined terms such as "institution of higher education" and "school." Additional corrections of the same nature will be accomplished through the technical editing process. | Retroactive to the implementation of the *Common Manual,* except that provisions regarding a postsecondary program for students with intellectual disabilities are effective July 1, 2010. | 1262/184 |
| Preferred Lender Arrangement | Removes reference to the PLUS loan auction pilot program. | Upon approval by the *Common Manual* Governing Board. | 1255/181 |
| **Appendix H: History of the FFELP and the *Common Manual*** | | | |
| H.4.D Disaster Waivers | Includes the updated guidance reflected in DCL GEN-10-16 regarding disaster relief waivers. | *Dear Colleague Letter* (DCL) GEN-10-16. | 1271/186 |

# COMMON MANUAL

*Unified Student Loan Policy*

*2012 Annual Update*

©2012 Common Manual Guarantors

This page intentionally left blank.

# Table of Contents


**Chapter 1: Overview**

1.1 Introduction ..... 1
1.2 About the Manual ..... 1
1.3 Using, Duplicating, and Reprinting of Portions of the *Common Manual* ..... 2
1.4 Disclaimer ..... 2
1.5 FFELP Guarantors and Contact Information ..... 3

**Chapter 2: About the FFELP**

2.1 The Federal Family Education Loan Program (FFELP) ..... 1
2.1.A Overview ..... 1
2.1.B Types of Loans Available ..... 1
2.2 The Life of a FFELP Loan ..... 2
2.2.A Origination ..... 6
2.2.B The Interim Period ..... 8
2.2.C Repayment ..... 9
2.3 Other FFELP Resources ..... 11
2.3.A Federal Statute, Regulations, and *Dear Colleague Letters/Dear Partner Letters* ..... 11
2.3.B U.S. Department of Education Publications ..... 12
2.3.C Common Forms ..... 13

**Chapter 3: Lender Participation**

3.1 Eligible Lenders ..... 1
3.2 Schools Acting as Lenders and Eligible Lender Trustee Relationships ..... 2
3.3 Participation and Guarantees ..... 4
3.3.A Approval for Participation ..... 4
3.3.B Agreement to Guarantee Loans ..... 4
3.3.C Transfer of Loan Guarantee ..... 5
3.4 Lender Responsibilities and Standards ..... 5
3.4.A Recordkeeping Requirements ..... 6
3.4.B Loan Assignment, Sale, or Transfer ..... 8
3.4.C Permitted and Prohibited Activities ..... 9
3.4.D Borrower Defenses ..... 12
3.4.E Charges to Borrowers ..... 13
3.5 Lender Reporting ..... 13
3.5.A Federal Origination Fee and Lender Fee ..... 13
3.5.B Interest Benefits and Special Allowance Reporting ..... 15
3.5.C Reporting to Nationwide Consumer Reporting Agencies ..... 15
3.5.D Reporting Loan Information ..... 16
3.5.E Reporting Loan Assignments, Sales, and Transfers ..... 16
3.5.F Reporting Social Security Number, Date of Birth, and First Name Changes or Corrections ..... 17
3.5.G NSLDS Reporting ..... 18
3.5.H Reporting Loans Paid in Full ..... 18
3.5.I Reporting Information Relating to Preferred Lender Arrangements ..... 19
3.6 Third-Party Servicers ..... 19
3.6.A Administrative Capability ..... 20
3.6.B Financial Responsibility ..... 20
3.7 Lender of Last Resort ..... 22
3.7.A Eligible Lenders ..... 22
3.7.B Benefits of Participation ..... 22
3.7.C How the LLR Program Works ..... 22

3.8 Independent Audits ....23
3.8.A Annual Compliance Audits ....23
3.8.B Third-Party Servicer Audits ....24

**Chapter 4: School Participation**

4.1 School Eligibility ....2
4.1.A Establishing Eligibility ....2
4.1.B Written Agreements between Schools ....6
4.1.C Maintaining Eligibility ....7
4.1.D Loss of Eligibility ....21
4.1.E School Misrepresentation ....22
4.1.F School Code of Conduct ....23
4.2 Administrative Capability Standards ....24
4.2.A Financial Aid Administrator Responsibilities ....25
4.2.B Financial Aid Administrator Training ....26
4.3 Financial Responsibility Standards ....27
4.3.A General School Financial Responsibility Requirements ....27
4.3.B Specific Criteria for Determining School Financial Responsibility ....29
4.3.C Sufficient Cash Reserve Requirements ....29
4.3.D Composite Score ....31
4.4 Providing Information to Students ....33
4.4.A Preferred Lender Arrangements and Lists ....33
4.4.B Student Consumer Information ....35
4.4.C Entrance Counseling ....44
4.4.D Exit Counseling ....46
4.4.E Private Education Loan Information ....48
4.5 Recordkeeping Requirements ....49
4.6 Third-Party Servicers ....51
4.7 Quality Assurance Program ....52
4.8 Independent Audits ....52

**Chapter 5: Borrower Eligibility**

5.1 Eligibility Requirements for Stafford and PLUS Loans ....1
5.1.A General Borrower and Student Eligibility Requirements ....1
5.1.B Student Eligibility Requirements ....2
5.1.C Graduate or Professional Student and Parent PLUS Loan Borrower Eligibility Requirements ....3
5.2 Federal Data Matches ....3
5.2.A Citizenship Data Match ....4
5.2.B Social Security Number Data Match ....5
5.2.C Selective Service Registration Data Match ....6
5.2.D Exceeding Loan Limits and Prior Overpayments Data Match ....6
5.2.E Prior Default Data Match ....7
5.2.F Department of Justice Data Match ....8
5.2.G Department of Veterans Affairs Data Match ....8
5.3 Reinstatement of Title IV Eligibility after Default ....8
5.4 Prior Loan Written Off ....9
5.5 Prior Loan Discharge Due to Total and Permanent Disability ....10
5.5.A Prior Loan or TEACH Grant Service Obligation in a Conditional Discharge or Post-Discharge Monitoring Period Based on a Determination of Total and Permanent Disability ....10
5.5.B Final Discharge of a Prior Loan Based on a Determination of Total and Permanent Disability ....11
5.6 Effect of Exceeding Loan Limits on Eligibility ....13
5.7 Effect of Bankruptcy on Eligibility ....13
5.8 Effect of Fraud on Eligibility ....13
5.9 Effect of Drug Conviction on Eligibility ....13
5.10 Required High School Diploma or Equivalent ....14
5.11 Ability-to-Benefit Provisions ....15

5.12 Student Enrollment Requirements ..... 15
5.13 Use of Distance Education and Correspondence in Programs of Study ..... 16
5.13.A Distance Education Program of Study ..... 16
5.13.B Correspondence Program of Study ..... 17
5.14 Foreign Schools and Study-Abroad Programs ..... 17
5.14.A Study at Participating Foreign Schools ..... 17
5.14.B Study-Abroad Programs ..... 17
5.15 Eligibility Requirements Specific to Transfer Students ..... 17
5.15.A Financial Aid History for Transfer Students ..... 17
5.15.B Students Who Transfer after Full Disbursement of the Loan ..... 18
5.16 Multiple School Enrollment ..... 18
5.17 Ineligible Borrowers ..... 19
5.17.A Ineligibility Based on Borrower Error ..... 19
5.17.B Ineligibility Based on School Error ..... 20
5.17.C Ineligibility Based on Lender Error ..... 21

**Chapter 6: School Certification**

6.1 Defining an Academic Year ..... 1
6.1.A Minimum Length for an Academic Year ..... 1
6.1.B Academic Year Categories ..... 2
6.2 Determining the Loan Period ..... 8
6.3 Determining Payment Periods ..... 10
6.3.A Credit-Hour Programs Offered in Modules ..... 10
6.3.B Credit-Hour Programs with Standard Terms or with Nonstandard Terms That Are Substantially Equal in Length 11
6.3.C Credit-Hour Programs with Nonstandard Terms That Are Not Substantially Equal in Length ..... 11
6.3.D Clock-Hour Programs or Non-Term-Based Credit-Hour Programs ..... 12
6.3.E Excused Absences in Clock-Hour Programs ..... 13
6.3.F Students Returning to a Non-Term-Based Credit-Hour or Clock-Hour Program after a Withdrawal ..... 13
6.4 Determining the Disbursement Schedule ..... 13
6.4.A Multiple Disbursements and Low Cohort Default Rate Exemptions ..... 14
6.4.B When Disbursements May Be Scheduled ..... 14
6.5 Determining the Student's Cost of Attendance (COA) ..... 18
6.5.A COA Components ..... 18
6.5.B COA Exceptions for Correspondence and Distance Education Programs of Study ..... 19
6.5.C COA Documentation Requirements ..... 19
6.5.D Use of Professional Judgment to Determine COA ..... 19
6.6 Determining the Expected Family Contribution (EFC) ..... 20
6.6.A Performing Verification Requirements ..... 20
6.6.B Use of Professional Judgment to Determine EFC ..... 21
6.7 Determining the Amount of Estimated Financial Assistance (EFA) ..... 21
6.8 Determining the Student's Dependency Status ..... 23
6.9 Defining Enrollment Status ..... 26
6.10 Determining the Student's Grade Level ..... 27
6.11 Loan Limits ..... 28
6.11.A Stafford Annual Loan Limits ..... 28
6.11.B Stafford Aggregate Loan Limits ..... 38
6.11.C PLUS Loans for Graduate and Professional Students ..... 39
6.11.D Increased Unsubsidized Stafford Loan Limits for Health Profession Students ..... 39
6.11.E Exceeding Loan Limits ..... 41
6.11.F Prorated Loan Limits ..... 42
6.11.G Effects of a Consolidation Loan on New Stafford Loan Eligibility ..... 46
6.12 Determining the Eligible Loan Amount ..... 46
6.13 Determining the Loan Amount at Schools with Credit-Hour Programs ..... 47
6.14 Determining a Student's Eligibility for Interest Subsidy on Stafford Loans ..... 47
6.14.A Subsidized Stafford Loans ..... 47
6.14.B Unsubsidized Stafford Loans ..... 48
6.14.C Nonsubsidized Stafford Loans ..... 48

6.15 School Certification of the Loan ..... 48
6.15.A Preventing Overawards ..... 49
6.15.B Stafford Loan Certification ..... 49
6.15.C PLUS Loan Certification ..... 50
6.15.D Additional Unsubsidized Stafford Loan Certification for a Dependent Student ..... 51
6.15.E Refusing to Certify a Loan or Reducing Borrower Eligibility ..... 52
6.16 Applying for Federal Stafford and PLUS Loans ..... 53
6.17 Forwarding the Loan Information ..... 55
6.18 Facilitating Guarantee Processing ..... 55
6.19 Guarantee of the Loan ..... 56
6.20 Adjusting the Guaranteed Loan Amount ..... 56
6.21 The NCHELP FFELP CommonLine Network ..... 56

**Chapter 7: Loan Origination**

7.1 Reviewing the Loan Request ..... 1
7.1.A General Determinations ..... 1
7.1.B Credit Standards and Determining Adverse Credit ..... 1
7.1.C Effect of Bankruptcy on the Lender's Determination of Adverse Credit ..... 2
7.2 Reviewing the Promissory Note ..... 2
7.2.A Lender Responsibilities under a Master Promissory Note ..... 3
7.2.B Transfer Students and Master Promissory Notes ..... 4
7.3 Processing the Loan Request ..... 4
7.4 Establishing Stafford Loan Interest Rates ..... 5
7.4.A Current Stafford Interest Rates ..... 5
7.4.B Reduced Stafford Interest Rates ..... 5
7.4.C Previous Stafford Interest Rates ..... 6
7.4.D Resolving Interest Rate Discrepancies on Stafford Loans ..... 6
7.5 Establishing PLUS Loan and SLS Loan Interest Rates ..... 8
7.5.A Current PLUS Interest Rate ..... 8
7.5.B Reduced PLUS Interest Rates ..... 8
7.5.C Previous PLUS and SLS Interest Rates ..... 9
7.6 Borrower Disclosures ..... 10
7.6.A General Initial Disclosure Requirements ..... 10
7.6.B Income-Sensitive and Income-Based Repayment Disclosure Requirements ..... 11
7.6.C Guarantee Disclosure ..... 11
7.7 Disbursing the Loan ..... 12
7.7.A Earliest Date for Disbursement ..... 12
7.7.B Multiple Disbursement ..... 13
7.7.C Disbursement by Individual Check ..... 13
7.7.D Disbursement by Electronic Funds Transfer (EFT) or Master Check ..... 14
7.7.E Disbursement for Students in Study-Abroad Programs or Foreign Schools ..... 14
7.7.F Reissuing Disbursements ..... 15
7.7.G Late Disbursement ..... 16
7.7.H Effect of Loss of School Eligibility on Disbursement ..... 16
7.7.I Effect of Bankruptcy on Disbursement ..... 17
7.7.J Disbursement to Transfer Students ..... 17
7.7.K Disbursement Cancellation ..... 18
7.7.L Consummated and Unconsummated Disbursements ..... 18
7.8 Processing the Federal Default Fee (Formerly the Guarantee Fee) ..... 19
7.8.A Paying the Federal Default Fee (Formerly the Guarantee Fee) ..... 19
7.8.B Recalculating the Federal Default Fee (or Guarantee Fee) ..... 19
7.8.C Refunding the Federal Default Fee (or Guarantee Fee) ..... 20
7.9 Processing Federal Origination Fees ..... 22
7.9.A Collecting the Origination Fee ..... 22
7.9.B Reporting the Origination Fee ..... 22
7.9.C Refunding the Origination Fee ..... 23

## Chapter 8: Loan Delivery


8.1 Managing Loan Funds ..... 1
8.2 Required Notices ..... 2
8.2.A Initial Notice of Funds ..... 2
8.2.B Confirmation Requirements for the Multi-Year Feature of the MPN ..... 2
8.2.C School's Notice of Credit to Student's Account ..... 3
8.2.D School's Notice of Borrower's Right to Cancel Loan Disbursed by EFT or Master Check ..... 3
8.2.E Notification of Late Disbursement or Post-Withdrawal Disbursement of Loan Funds ..... 4
8.3 Required Authorizations ..... 4
8.3.A Authorization Modifications and Cancellations ..... 5
8.3.B Authorization for Release of EFT/Master Check Disbursements ..... 5
8.4 Assessing Satisfactory Academic Progress ..... 7
8.5 Completing Verification ..... 9
8.6 Managing Overawards ..... 9
8.7 Delivering Loan Funds at Eligible Schools ..... 10
8.7.A Delivery Time Frames ..... 10
8.7.B Delivering Second and Subsequent Disbursements ..... 13
8.7.C Early Delivery ..... 14
8.7.D Delayed Delivery ..... 15
8.7.E Late Delivery ..... 16
8.7.F Delivery in Credit-Hour Programs Offered in Modules ..... 17
8.7.G Delivery to Borrowers in Special Circumstances ..... 17
8.7.H Delivery to Transfer Students ..... 19
8.7.I Delivery Methods ..... 19
8.8 Managing Credit Balances ..... 21
8.8.A Timeframes for Paying Credit Balances ..... 21
8.8.B How to Pay Credit Balances ..... 21
8.8.C Holding Credit Balances ..... 23
8.8.D Treatment of a Title IV Credit Balance When a Student Withdraws ..... 23
8.8.E Treatment of a Title IV Credit Balance When a Student Dies ..... 24
8.9 Return of Loan Funds ..... 24
8.9.A Return of Undelivered Loan Funds ..... 24
8.9.B Return of Ineligible Borrower Loan Funds ..... 25
8.9.C Return of Unearned Loan Funds ..... 26
8.9.D Return of Loan Funds for a Deceased Borrower ..... 27
8.10 Delivery When Department Approval Is Required ..... 31
8.11 Delivering Loan Funds in Cases of Lost School Eligibility ..... 31
8.11.A Exceptions to Delivery Restrictions at Ineligible Schools ..... 31
8.11.B Delivery of Second or Subsequent Disbursements after a School Loses Eligibility ..... 31


## Chapter 9: School Reporting Responsibilities and the Return of Title IV Funds


9.1 Reporting Social Security Number, Date of Birth, and First Name Changes or Corrections ..... 1
9.2 Student Enrollment Status Reporting ..... 2
9.2.A National Student Loan Data System (NSLDS) Enrollment Reporting ..... 3
9.2.B Ad Hoc Reporting ..... 5
9.2.C Information Sharing with the Department, a Lender, or a Guarantor ..... 6
9.3 Leave of Absence ..... 6
9.4 Withdrawal Dates ..... 7
9.5 Return of Title IV Funds ..... 13
9.5.A Return Amounts for Title IV Grant and Loan Programs ..... 14
9.5.B Processing Returned Funds ..... 20
9.5.C Responsibilities for Unpaid Refunds ..... 22
9.5.D Return of Title IV Funds Calculations for Students Subject to Verification ..... 22

## Chapter 10: Loan Servicing


10.1 Verifying Enrollment ..... 1
10.1.A Lender Processing of Enrollment Changes ..... 2
10.1.B Lender Reporting of Enrollment Changes ..... 3
10.2 In-School Period ..... 4
10.3 Grace Period ..... 4
10.3.A Length of the Grace Period ..... 4
10.3.B Payment of Interest during the Grace Period ..... 5
10.3.C Military Extension of the Grace Period ..... 5
10.4 Establishing the Repayment Start Date ..... 5
10.4.A Stafford Loan Repayment Start Date ..... 5
10.4.B PLUS and SLS Loan Repayment Start Date ..... 6
10.4.C Aligning Repayment Start Dates for Stafford and SLS Loans ..... 6
10.5 Establishing the First Payment Due Date ..... 6
10.5.A Stafford Loan First Payment Due Date ..... 6
10.5.B PLUS and SLS Loan First Payment Due Date ..... 7
10.5.C Aligning First Payment Due Dates for Stafford and SLS Loans ..... 7
10.5.D Revised Out-of-School Dates before Conversion to Repayment ..... 7
10.5.E Revised Out-of-School Dates after Conversion to Repayment ..... 8
10.6 Establishing Repayment Terms ..... 10
10.6.A Determining the Borrower's Indebtedness ..... 10
10.6.B Length of the Repayment Period ..... 10
10.6.C Repayment Options ..... 11
10.6.D Minimum Payment Requirements ..... 11
10.6.E Adjusting the Borrower's Repayment Terms ..... 12
10.7 Disclosing Repayment Terms ..... 12
10.7.A Time Frame for Disclosure ..... 15
10.7.B Dispute of Loan Terms ..... 15
10.8 Establishing a Repayment Schedule ..... 15
10.8.A Standard Repayment Schedule ..... 16
10.8.B Graduated Repayment Schedule ..... 16
10.8.C Income-Sensitive Repayment Schedule ..... 16
10.8.D Income-Based Repayment Schedule ..... 17
10.8.E Extended Repayment Schedule ..... 19
10.9 Interest Charges ..... 19
10.9.A Annual Variable Interest Rate Charges ..... 19
10.9.B Reduced Interest Rates ..... 20
10.9.C Excess Interest Rebates ..... 20
10.9.D Payment of Accrued Interest on Loans Not Eligible for Federal Interest Benefits ..... 20
10.10 Capitalizing Accrued Interest ..... 21
10.10.A Permitted Capitalization ..... 21
10.10.B Capitalization Frequency ..... 21
10.10.C Capitalization of Delinquent Interest Payments ..... 22
10.11 Applying Borrower Payments and Funds Returned by the School ..... 23
10.11.A Applying Regular Borrower Payments ..... 23
10.11.B Applying Prepayments ..... 23
10.11.C Changing the Borrower's Payment Due Date ..... 24
10.11.D Applying Payments during Deferment or Forbearance ..... 24
10.11.E Applying Funds Returned by the School ..... 25
10.12 Lender Disclosures during Repayment ..... 25
10.13 Paid-in-Full Loans ..... 26

## Chapter 11: Deferment and Forbearance


| | | |
|---|---|---|
| 11.1 | Authorized Deferment | 1 |
| 11.1.A | General Deferment Eligibility Criteria | 1 |
| 11.1.B | Documentation Required for Authorized Deferment | 3 |
| 11.1.C | Deferment Length | 3 |
| 11.1.D | Payment of Interest during Deferment | 4 |
| 11.1.E | Reporting Deferments | 4 |
| 11.1.F | Deferment of Loans in Delinquency | 4 |
| 11.1.G | Deferment of Loans in Default | 4 |
| 11.1.H | Post-Deferment Grace Period | 5 |
| 11.1.I | Establishing Repayment after Deferment | 5 |
| 11.1.J | Disclosure When Granting a Deferment on Unsubsidized Stafford or PLUS Loan | 5 |
| 11.2 | ACTION Program Deferment | 7 |
| 11.2.A | Eligibility Criteria—ACTION Program | 7 |
| 11.2.B | Deferment Documentation—ACTION Program | 7 |
| 11.2.C | Length of Deferment—ACTION Program | 8 |
| 11.3 | Armed Forces Deferment | 8 |
| 11.3.A | Eligibility Criteria—Armed Forces | 8 |
| 11.3.B | Deferment Documentation—Armed Forces | 8 |
| 11.3.C | Length of Deferment—Armed Forces | 8 |
| 11.4 | Economic Hardship Deferment | 9 |
| 11.4.A | Eligibility Criteria—Economic Hardship | 9 |
| 11.4.B | Deferment Documentation—Economic Hardship | 10 |
| 11.4.C | Length of Deferment—Economic Hardship | 10 |
| 11.4.D | Simplified Deferment Processing | 10 |
| 11.5 | Graduate Fellowship Deferment | 11 |
| 11.5.A | Eligibility Criteria—Graduate Fellowship | 11 |
| 11.5.B | Deferment Documentation—Graduate Fellowship | 11 |
| 11.5.C | Length of Deferment—Graduate Fellowship | 11 |
| 11.5.D | Simplified Deferment Processing | 11 |
| 11.6 | In-School Deferment, Summer Bridge Extension, and Post-Enrollment Deferment | 12 |
| 11.6.A | Eligibility Criteria—In-School | 12 |
| 11.6.B | Deferment Documentation—In-School | 13 |
| 11.6.C | Length of Deferment—In-School | 13 |
| 11.6.D | Summer Bridge Extension | 14 |
| 11.6.E | Post-Enrollment Deferment | 14 |
| 11.7 | Internship/Residency Deferment | 15 |
| 11.7.A | Eligibility Criteria—Internship/Residency | 15 |
| 11.7.B | Deferment Documentation—Internship/Residency | 15 |
| 11.7.C | Length of Deferment—Internship/Residency | 15 |
| 11.8 | Military Service Deferment | 16 |
| 11.8.A | Eligibility Criteria—Military Service | 16 |
| 11.8.B | Deferment Documentation—Military Service | 16 |
| 11.8.C | Length of Deferment—Military Service | 17 |
| 11.8.D | Simplified Deferment Processing | 17 |
| 11.9 | National Oceanic and Atmospheric Administration Corps Deferment | 18 |
| 11.9.A | Eligibility Criteria—NOAA | 18 |
| 11.9.B | Deferment Documentation—NOAA | 18 |
| 11.9.C | Length of Deferment—NOAA | 18 |
| 11.10 | Parental Leave Deferment | 18 |
| 11.10.A | Eligibility Criteria—Parental Leave | 18 |
| 11.10.B | Deferment Documentation—Parental Leave | 19 |
| 11.10.C | Length of Deferment—Parental Leave | 19 |
| 11.11 | Peace Corps Deferment | 19 |
| 11.11.A | Eligibility Criteria—Peace Corps | 19 |
| 11.11.B | Deferment Documentation—Peace Corps | 19 |
| 11.11.C | Length of Deferment—Peace Corps | 19 |

11.12 Post-Active Duty Student Deferment ....19
11.12.A Eligibility Criteria—Post-Active Duty Student ....20
11.12.B Deferment Documentation—Post-Active Duty Student ....20
11.12.C Length of Deferment—Post-Active Duty Student ....20
11.12.D Simplified Deferment Processing ....21
11.13 Public Health Service Deferment ....21
11.13.A Eligibility Criteria—Public Health Service ....21
11.13.B Deferment Documentation—Public Health Service ....21
11.13.C Length of Deferment—Public Health Service ....21
11.14 Rehabilitation Training Program Deferment ....21
11.14.A Eligibility Criteria—Rehabilitation Training Program ....22
11.14.B Deferment Documentation—Rehabilitation Training Program ....22
11.14.C Length of Deferment—Rehabilitation Training Program ....22
11.14.D Simplified Deferment Processing ....22
11.15 Tax-Exempt Organization Volunteer Deferment ....23
11.15.A Eligibility Criteria—Tax-Exempt Organization Volunteer ....23
11.15.B Deferment Documentation—Tax-Exempt Organization Volunteer ....23
11.15.C Length of Deferment—Tax-Exempt Organization Volunteer ....23
11.16 Teacher Shortage Area or Targeted Teacher Deferment ....23
11.16.A Eligibility Criteria—Teacher Shortage Area ....24
11.16.B Deferment Documentation—Teacher Shortage Area ....24
11.16.C Length of Deferment—Teacher Shortage Area ....24
11.17 Temporary Total Disability Deferment ....24
11.17.A Eligibility Criteria—Temporary Total Disability ....25
11.17.B Deferment Documentation—Temporary Total Disability ....25
11.17.C Length of Deferment—Temporary Total Disability ....25
11.18 Unemployment Deferment ....25
11.18.A Eligibility Criteria—Unemployment ....26
11.18.B Deferment Documentation—Unemployment ....26
11.18.C Length of Deferment—Unemployment ....26
11.18.D Simplified Deferment Processing ....27
11.19 Working Mother Deferment ....27
11.19.A Eligibility Criteria—Working Mother ....27
11.19.B Deferment Documentation—Working Mother ....27
11.19.C Length of Deferment—Working Mother ....28
11.20 Forbearance ....28
11.20.A Forbearance Types ....28
11.20.B Documentation Required for Authorized Forbearance ....29
11.20.C Forbearance Length ....29
11.20.D Payment of Interest during Forbearance ....29
11.20.E Reporting Forbearances ....29
11.20.F Forbearance of a Loan for a Comaker during the TPD Conditional Period ....30
11.20.G Forbearance of Delinquent Loans ....30
11.20.H Forbearance of Defaulted Loans ....30
11.20.I Borrower Contact during Forbearance ....30
11.20.J Establishing Repayment after Forbearance ....31
11.21 Administrative Forbearance ....34
11.21.A Bankruptcy Filing ....34
11.21.B Borrower Ineligible for Deferment ....34
11.21.C Closed School or False Certification by the School ....34
11.21.D False Certification as a Result of the Crime of Identity Theft ....35
11.21.E Cures ....35
11.21.F Death ....35
11.21.G Delinquency before a Deferment or Certain Forbearances ....36
11.21.H Delinquency after a Deferment or Mandatory Forbearance ....36
11.21.I Documentation Collection and Processing ....36
11.21.J Forgiveness under Income-Based Repayment (IBR) ....36
11.21.K Late Notification of Out-of-School Dates ....36

11.21.L Loan Sale or Transfer ..... 37
11.21.M Natural Disasters, Local or National Emergency, or Military Mobilization ..... 37
11.21.N New Out-of-School Dates after Conversion to Repayment ..... 37
11.21.O Repayment Alignment ..... 37
11.21.P Repurchase of a Non-Bankruptcy Claim ..... 38
11.21.Q Spouses and Parents of Victims of September 11, 2001 ..... 38
11.21.R Total and Permanent Disability ..... 38
11.21.S Unpaid Refund Discharge ..... 39
11.21.T Repayment Plan Change ..... 39
11.22 Discretionary Forbearance ..... 39
11.22.A Reduced-Payment Forbearance ..... 40
11.23 Mandatory Administrative Forbearance ..... 40
11.23.A Death ..... 40
11.23.B Exceptional Circumstances ..... 41
11.23.C Repayment Accommodation ..... 41
11.23.D Teacher Loan Forgiveness ..... 41
11.24 Mandatory Forbearance ..... 42
11.24.A Debt Exceeds Monthly Income ..... 42
11.24.B Medical or Dental Internship or Residency ..... 42
11.24.C National Service, Loan Forgiveness, Department of Defense Repayment, or Active Military State Duty ..... 43
11.24.D Applying a Mandatory Forbearance Retroactively ..... 43

**Chapter 12: Due Diligence in Collecting Loans**

12.1 Collection Philosophies, Goals, and Minimum Standards ..... 1
12.1.A Lender Disclosure Requirements ..... 1
12.2 Situations Requiring Collection Activities ..... 2
12.3 Factors Relating to Collection Activities ..... 2
12.3.A Bankruptcy Petition Filing ..... 2
12.3.B Deferment of Loans in Delinquency or Default ..... 2
12.3.C Forbearance Option ..... 3
12.3.D Payment Application during Delinquency ..... 3
12.3.E Rolling Delinquency ..... 3
12.3.F Special Occurrence ..... 3
12.3.G Collection Costs and Late Charges ..... 4
12.4 Due Diligence Requirements ..... 4
12.4.A Due Diligence Requirements for Loans with Monthly Repayment Obligations ..... 5
12.4.B Due Diligence Requirements for Loans with Repayment Obligations Less Frequent Than Monthly ..... 11
12.4.C Written Notices and Collection Letters ..... 13
12.4.D Contact by Telephone ..... 13
12.4.E Endorser Due Diligence ..... 14
12.4.F Ineligible Borrower Due Diligence ..... 15
12.5 Default Aversion Assistance ..... 16
12.5.A Default Aversion Assistance Request (DAAR) ..... 16
12.5.B Default Aversion Assistance Request Form ..... 17
12.5.C Default Aversion Assistance and Bankruptcy Filing ..... 20
12.6 Final Demand Letter ..... 20
12.7 Address Skip Tracing ..... 21
12.7.A Timing of Address Skip Tracing Activities ..... 21
12.7.B Address Skip Tracing When the Loan Is Not Delinquent ..... 21
12.7.C Required Address Skip Tracing Activities ..... 22
12.7.D Endorser Address Skip Tracing Requirements ..... 22
12.7.E Address Skip Tracing Exceptions ..... 22
12.8 Telephone Skip Tracing ..... 23
12.8.A Telephone Skip Tracing Activities ..... 24
12.8.B Endorser Telephone Skip Tracing Requirements ..... 24
12.9 Resuming Loan Servicing after Claim Return ..... 24

## Chapter 13: Claim Filing, Discharge, and Forgiveness


13.1 Claim Filing ....1
13.1.A Claim Filing Requirements ....1
13.1.B Claim File Receipt ....4
13.1.C Claim Review Process ....4
13.1.D Claim File Documentation ....4
13.1.E Missing Claim File Documentation ....6
13.1.F Missing Payment History ....7
13.1.G Additional Documentation Requested by the Guarantor ....7
13.2 Claim Returns ....7
13.2.A Refiling the Returned Claim ....8
13.2.B Claim Recalls ....8
13.3 Claim Purchase or Discharge Payment ....9
13.3.A Claim Payment Amount ....9
13.3.B Amount of Interest Purchased on Eligible Claims ....10
13.3.C Amount of Interest Purchased on Returned Claims ....10
13.3.D Amount of Interest Purchased on Cured Loans ....11
13.3.E Receipt of Payments after Claim Purchase ....11
13.4 Requests for Increase in Claim Payment ....11
13.5 Claim Repurchase ....13
13.6 Default ....14
13.6.A Default Claims ....14
13.6.B Ineligible Borrower Claims ....15
13.7 Rehabilitation of Defaulted FFELP Loans ....15
13.8 Discharge ....17
13.8.A Bankruptcy ....20
13.8.B Closed School ....22
13.8.C Death ....29
13.8.D False Certification by the School ....30
13.8.E False Certification as a Result of the Crime of Identity Theft ....38
13.8.F Spouses and Parents of Victims of September 11, 2001 ....42
13.8.G Total and Permanent Disability ....48
13.8.H Unpaid Refund ....55
13.9 Forgiveness ....59
13.9.A Teacher Loan Forgiveness Program ....59
13.9.B Loan Forgiveness Program for Service in Areas of National Need ....65
13.9.C Civil Legal Assistance Attorney Student Loan Repayment Program ....67
13.9.D Loan Forgiveness under the Income-Based Repayment (IBR) Schedule ....69


## Chapter 14: Violations, Penalties, and Cures


14.1 Due Diligence Violations ....1
14.1.A Violations Due to Late or Missed Collection Efforts ....1
14.1.B Violations Due to Late Conversion to Repayment ....1
14.1.C Violations Due to Missing Payment History ....1
14.1.D Violations Due to Gaps in Due Diligence ....2
14.1.E Violations and Cures Associated with Unsynchronized Servicing of a Consolidation Loan with Multiple Loan Records ....2
14.2 Timely Claim Filing Violations ....3
14.3 Penalties for Due Diligence Violations ....4
14.3.A Default Claims ....4
14.3.B Non-Default Claims ....6
14.3.C Determining the Date of the Earliest Unexcused Violation ....7
14.4 Penalties for Timely Claim Filing Violations ....7
14.4.A Original Filing Deadline ....7
14.4.B Refile Deadline ....8

14.5 Cures and Reinstatement of the Guarantee ..... 10
14.5.A Inadvertent Cures ..... 11
14.5.B Cures for Due Diligence Violations and Gaps ..... 11
14.5.C Cures for Missing Payment History ..... 12
14.5.D Cures for Timely Filing Violations ..... 12
14.6 Intensive Collection Activities (ICA)/Location Cures ..... 13

**Chapter 15: Federal Consolidation Loans**

15.1 Lender Participation ..... 1
15.1.A Agreement to Guarantee Federal Consolidation Loans ..... 1
15.1.B Certificate of Comprehensive Insurance Coverage ..... 2
15.1.C Notifying the Guarantor ..... 2
15.2 Borrower Eligibility and Underlying Loan Holder Requirements ..... 3
15.3 The Application Process ..... 6
15.3.A Providing Consolidation Loan Information ..... 6
15.3.B Completing the Application ..... 7
15.3.C Reviewing the Loan Verification Certificate ..... 7
15.3.D Calculating the Interest Rate ..... 8
15.4 Disbursement ..... 11
15.5 Repayment ..... 11
15.5.A Establishing the First Payment Due Date ..... 12
15.5.B Disclosing Repayment Terms ..... 12
15.5.C Maximum Repayment Period ..... 12
15.5.D Deferments ..... 14
15.5.E Forbearance ..... 15
15.5.F Delinquency, Claim Filing, Loan Forgiveness, and Discharge ..... 15
15.5.G Paid-in-Full Loans ..... 15
15.6 Interest Benefits and Special Allowance ..... 16
15.7 Interest Payment Rebate Fee ..... 16
15.8 Direct Consolidation Loan Program Treatment of Underpayments and Overpayments ..... 17

**Chapter 16: Cohort Default Rates and Appeals**

16.1 Overview of Cohort Default Rates and Terminology ..... 1
16.2 Calculation of School Cohort Default Rates ..... 3
16.3 School Draft Cohort Default Rates and Challenges ..... 8
16.4 School Official Cohort Default Rates, Adjustments, and Appeals ..... 9
16.4.A School Requests for Adjustment ..... 10
16.4.B School Appeals ..... 11
16.5 Consequences of High Official Cohort Default Rates for Schools ..... 14
16.6 Cohort Default Rates for Lenders and Holders ..... 15

**Chapter 17: Program Reviews**

17.1 Purpose and Scope of Program Reviews ..... 1
17.2 Selecting Entities for Program Review ..... 2
17.2.A Selection Criteria for Schools ..... 2
17.2.B Selection Criteria for Lenders and Servicers ..... 2
17.3 The Program Review Process ..... 3
17.3.A The Preliminary Review ..... 3
17.3.B The On-Site Review ..... 4
17.3.C Program Review Report ..... 5
17.3.D Program Review Close-Out Procedures ..... 6

## Chapter 18: Limitation, Suspension, and Termination


18.1 Actions to Limit, Suspend, or Terminate Participation ..... 1
18.1.A Limitation ..... 2
18.1.B Suspension ..... 2
18.1.C Termination ..... 3
18.1.D Emergency Action ..... 3
18.2 Proceedings ..... 4
18.2.A Appealing an LS&T Action ..... 4
18.2.B Prehearing Conferences and Informal Compliance Procedures ..... 4
18.2.C Hearing ..... 5
18.2.D Action by the U.S. Department of Education ..... 6
18.2.E Appealing a Final Determination ..... 6
18.2.F Offsets, Reimbursements, and Refunds ..... 6
18.3 Removal of Limitation ..... 6
18.4 Reinstatement after Termination ..... 7


## Appendix A: Interest Benefits and Special Allowance


A.1 Federal Interest Benefits ..... 1
A.1.A Amount of Federal Interest Benefits ..... 1
A.1.B When Federal Interest Benefits Will Be Paid ..... 2
A.2 Special Allowance and Excess Interest ..... 4
A.2.A Special Allowance and Excess Interest Rates ..... 4
A.2.B Termination of Special Allowance ..... 13
A.3 Interest and Special Allowance Billing ..... 14
A.3.A General Instructions for Completing the LaRS Report ..... 14
A.3.B Summary of the LaRS Report ..... 16
A.3.C LaRS Data and Codes ..... 16
A.3.D Deactivation ..... 17
A.4 Consistency between LaRS and NSLDS Data ..... 18


## Appendix B: PLUS/SLS Refinancing


B.1 Option 1: Refinancing to Secure a Combined Payment ..... 1
B.2 Option 2: Refinancing to Secure a Variable Interest Rate ..... 1
B.3 Option 3: Refinancing by Obtaining a New Loan ..... 2
B.4 Repayment Options on Refinanced Loans ..... 3


## Appendix C: Guarantor-Specific Information


American Student Assistance (ASA) ..... 1
College Assist ..... 1
Finance Authority of Maine (FAME) ..... 1
Florida Department of Education, Office of Student Financial Assistance (OSFA) ..... 2
Georgia Higher Education Assistance Corporation (GHEAC) ..... 3
Illinois Student Assistance Commission (ISAC) ..... 3
Iowa College Student Aid Commission (ICSAC) ..... 3
Kentucky Higher Education Assistance Authority (KHEAA) ..... 4
Louisiana Student Financial Assistance Commission (LASFAC) ..... 4
Missouri Department of Higher Education (MDHE) Student Loan Program ..... 4
New Hampshire Higher Education Assistance Foundation (NHHEAF) ..... 5
New Jersey Higher Education Student Assistance Authority (HESAA) ..... 5
New Mexico Student Loan Guarantee Corporation (NMSLGC) ..... 5
New York State Higher Education Services Corporation (HESC) ..... 6
United Student Aid Funds, Inc. (USA Funds) ..... 6

**Appendix D: U.S. Department of Education Contact Information**


D.1 School Participation Teams ..... 1
D.2 Financial Partners Portal ..... 1
D.3 Federal Student Aid Information Center ..... 2
D.4 Federal Student Aid Research and Customer Call Center ..... 2
D.5 Federal Student Aid's Chief Financial Officer, Accounting Division ..... 2
D.6 National Student Loan Data System (NSLDS) Customer Service Center ..... 2
D.7 Default Prevention and Management Division ..... 2
D.8 FSA Ombudsman ..... 3
D.9 Other Department Contact Information ..... 3


**Appendix E: Guarantor Bulletins**

**Appendix F: FFELP Community Initiatives**


College Access Initiative ..... 1
Common Account Maintenance (CAM) ..... 1
Common Image Transport Specification ..... 2
CommonLine 4.0 and 5.0 ..... 2
Common Record: CommonLine ..... 2
Data Transport Standard (DTS) ..... 3
Mapping Your Future®, Inc. ..... 3
NCHELP Program Operations Committee ..... 3
NCHELP Program Regulations Committee ..... 4
Ombudsman Caucus ..... 4


**Appendix G: Glossary**

**Appendix H: History of the FFELP and the *Common Manual***


H.1 History of the FFELP and the *Common Manual* ..... 1
H.2 History of Excess Interest Rebates and Variable Interest Rate Conversions ..... 134
H.3 History of Ability-to-Benefit Provisions ..... 138
H.3.A Ability-to-Benefit Requirements ..... 138
H.3.B Ability-to-Benefit Provisions ..... 140
H.4 History of Statutory and Regulatory Waivers ..... 142
H.4.A Waivers for Operations Desert Shield/Desert Storm ..... 142
H.4.B HEROES Act Waivers ..... 142
H.4.C Higher Education Hurricane Relief Act Waivers ..... 152
H.4.D Disaster Waivers ..... 153
H.4.E Waiver of Borrower-by-Borrower LLR Designation ..... 155


**Appendix I: Index**

This page intentionally left blank.

# Table of Figures


**Chapter 2: About the FFELP**

Figure 2-1 The Life of a Stafford Loan ....3
Figure 2-2 The Life of a Parent PLUS Loan ....4
Figure 2-3 The Life of a Grad PLUS Loan ....5

**Chapter 4: School Participation**

Figure 4-1 Calculating the Composite Score for Proprietary Schools and Private Nonprofit Schools ....32

**Chapter 5: Borrower Eligibility**

Figure 5-1 Effect of Title IV Loan Status on Student Aid Eligibility ....12

**Chapter 6: School Certification**

Figure 6-1 Statutory Definition of an Academic Year ....5
Figure 6-2 Frequency of Stafford Annual Loan Limits ....6
Figure 6-3 First Disbursement Timeline ....17
Figure 6-4 Stafford Annual and Aggregate Loan Limits for Undergraduate Students ....36
Figure 6-5 Prorated Stafford Annual Loan Limits ....44

**Chapter 7: Loan Origination**

Figure 7-1 Stafford Loan Interest Rates ....6
Figure 7-2 PLUS and SLS Loan Interest Rates ....9
Figure 7-3 Calculating the Amount of the Federal Default Fee (or Guarantee Fee) Refund ....20
Figure 7-4 Examples of Calculating Federal Default Fee or Guarantee Fee Refunds ....21

**Chapter 8: Loan Delivery**

Figure 8-1 FFELP Written Notification/Authorization Requirements ....6
Figure 8-2 Examples of Time Frames for Delivering and Returning Loan Proceeds ....12
Figure 8-3 School Requirements before Delivering a FFELP Loan ....28
Figure 8-4 Earliest Disbursement and Delivery Dates ....29
Figure 8-5 Delivery of Credit Balances ....29
Figure 8-6 Delivery or Return of Loan Funds ....30

**Chapter 11: Deferment and Forbearance**

Figure 11-1 Deferment Eligibility Chart ....6
Figure 11-2 Forbearance Eligibility Chart ....32

**Chapter 12: Due Diligence in Collecting Loans**

Figure 12-1 Due Diligence Requirements for Loans with Monthly Repayment Obligations and with Repayment Obligations Less Frequent Than Monthly ....8
Figure 12-2 Due Diligence with a Rolling Delinquency or Special Occurrence – For Loans with Monthly Repayment Obligations ....9
Figure 12-3 Due Diligence with a Rolling Delinquency or Special Occurrence – For Loans with Repayment Obligations Less Frequent Than Monthly ....10
Figure 12-4 Default Aversion Assistance (DAA) Time Frames ....18
Figure 12-5 Information to Be Provided on the Default Aversion Assistance Request Form ....19

**Chapter 13: Claim Filing, Discharge, and Forgiveness**


Figure 13-1 Information to Be Provided on the Claim Form ..... 2
Figure 13-2 Information to Be Provided on the Supplemental Claim Form ..... 12
Figure 13-3 Information to Be Provided on the Request for Reimbursement Due to Partial Discharge of a Federal Consolidation Loan Form ..... 19
Figure 13-4 Timely Filing Deadlines for Claims and Discharges ..... 58
Figure 13-5 Information to Be Provided on the FFELP Teacher Loan Forgiveness Request Form ..... 64


**Chapter 15: Federal Consolidation Loans**


Figure 15-1 Consolidation Loan Interest Rates ..... 9
Figure 15-2 Maximum Repayment Periods for Consolidation Loans ..... 13


**Chapter 16: Cohort Default Rates and Appeals**


Figure 16-1 Cohort Default Rate Formulas ..... 4
Figure 16-2 Cohort Default Rate Formulas Beginning with Fiscal Year 2009 ..... 5
Figure 16-3 Summary: Challenges, Adjustments, and Appeals ..... 13


**Appendix A: Interest Benefits and Special Allowance**


Figure A-1 Special Allowance Formulas ..... 8
Figure A-2 Examples of Special Allowance Calculations ..... 10
Figure A-3 Excess Interest Formulas ..... 12
Figure A-4 Example of Excess Interest Calculations ..... 13
Figure A-5 LaRS Special Allowance and Interest Rate Reporting for FFELP Loans ..... 19


**Appendix D: U.S. Department of Education Contact Information**


Figure D-1 School Participation Teams ..... 1
Figure D-2 Financial Partners Portal ..... 1


**Appendix H: History of the FFELP and the *Common Manual***

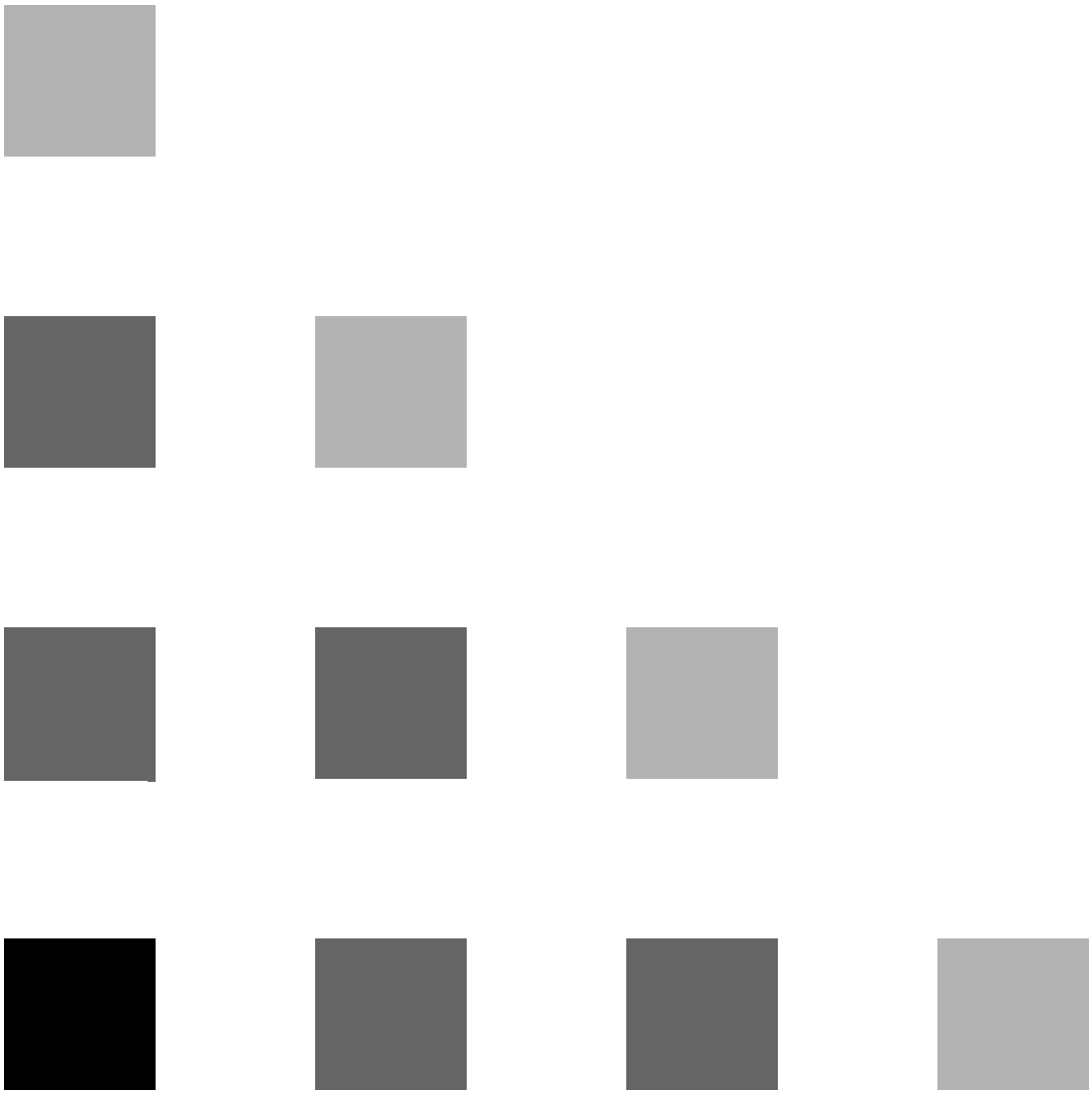

Figure H-1 Summary of Variable-Rate Conversion Provisions ..... 137
Figure H-2 HEROES Act Waivers and Modifications ..... 144

# Tab Locator Page

## Remove this page and replace with tab divider.

# Tab Locator Page

## Remove this page and replace with tab divider.



# 1 Overview


1.1 Introduction ..... 1

1.2 About the Manual ..... 1

1.3 Using, Duplicating, and Reprinting of Portions of the Common Manual ..... 2

1.4 Disclaimer ..... 2

1.5 FFELP Guarantors and Contact Information ..... 3

| Designated State(s)[1] | Guarantor Name | |
|---|---|---|
| PA, DE, WV | American Education Services (AES) (Pennsylvania Higher Education Assistance Agency) | 5 |
| MA, DC | American Student Assistance | 7 |
| CO | College Assist | 9 |
| CT, OR, VA | Educational Credit Management Corporation (ECMC) | 11 |
| CA | ECMC – California | 13 |
| ME | Finance Authority of Maine (FAME) | 15 |
| FL | Florida Department of Education Office of Student Financial Assistance | 17 |
| GA | Georgia Higher Education Assistance Corporation | 19 |
| WI, MN, OH, PR, SD, VI | Great Lakes Higher Education Guaranty Corporation | 21 |
| IL | Illinois Student Assistance Commission | 23 |
| IA | Iowa College Student Aid Commission (ICSAC) | 25 |
| KY, AL | Kentucky Higher Education Assistance Authority (KHEAA) | 27 |
| LA | Louisiana Student Financial Assistance Commission (LASFAC) | 29 |
| MI | Michigan Higher Education Assistance Authority (MHEAA) | 31 |
| MO | Missouri Department of Higher Education (MDHE) Student Loan Program | 33 |
| MT | Montana Guaranteed Student Loan Program (MGSLP) | 35 |
| NE | National Student Loan Program (NSLP) | 37 |
| NH | New Hampshire Higher Education Assistance Foundation | 39 |
| NJ | New Jersey Higher Education Student Assistance Authority | 41 |
| NM | New Mexico Student Loan Guarantee Corporation (NMSLGC) | 43 |
| NY | New York State Higher Education Services Corporation (HESC) | 45 |
| NC | North Carolina State Education Assistance Authority Guarantee Agency | 47 |
| WA, ID | Northwest Education Loan Association | 49 |
| OK | Oklahoma College Assistance Program | 51 |
| RI | Rhode Island Higher Education Assistance Authority (RIHEAA) | 53 |
| SC | South Carolina Student Loan Corporation | 55 |
| AR | Student Loan Guarantee Foundation of Arkansas (SLGFA) | 57 |
| ND | Student Loans of North Dakota (SLND) | 59 |
| TN | Tennessee Student Assistance Corporation | 61 |
| TX | TG | 63 |
| AZ, HI and the Pacific Islands, IN, KS, MD, MS, NV, WY | United Student Aid Funds, Inc. (USA Funds) | 65 |
| UT | Utah Higher Education Assistance Authority (UHEAA) | 67 |
| VT | Vermont Student Assistance Corporation (VSAC) | 69 |


[1] 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.

This page intentionally left blank.

## 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 About the Manual

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

### Chapters

**1** Overview
**2** About the FFELP
**3** Lender Participation
**4** School Participation
**5** Borrower Eligibility
**6** School Certification
**7** Loan Origination
**8** Loan Delivery
**9** School Reporting Responsibilities and the Return of Title IV Funds
**10** Loan Servicing
**11** Deferment and Forbearance
**12** Due Diligence in Collecting Loans
**13** Claim Filing, Discharge, and Forgiveness
**14** Violations, Penalties, and Cures
**15** Consolidation Loans
**16** Cohort Default Rates and Appeals
**17** Program Reviews
**18** Limitation, Suspension, and Termination

### Appendices

**A** Interest Benefits and Special Allowance
**B** PLUS/SLS Refinancing
**C** Guarantor-Specific Information
**D** U.S. Department of Education Contact Information
**E** Guarantor Bulletins
**F** FFELP Community Initiatives
**G** Glossary
**H** History of the FFELP and the *Common Manual*
**I** Index

### 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 4.4 outlines school requirements for providing information to students.
- Subsection 4.4.A covers recommended lender lists; Subsection 4.4.B, student consumer information; Subsection 4.4.C, entrance counseling; and Subsection 4.4.D, exit counseling.

### Citations

Citations are provided throughout the Manual to federal statute, regulations, and other U.S. Department of Education publications. Unless otherwise noted, all regulatory references are to Title 34 of the Code of Federal Regulations (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 GEN-06-05] | April 2006 *Dear Colleague Letter* GEN-06-05 |

In the electronic versions of the *Common Manual,* the *Electronic Common Manual* (ECM) and the *Integrated Common Manual* (ICM), each citation contains a hyperlink to its source document on the Internet.

### 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

Both the terms and conditions and administration of loans made under the FFELP—which consist of Federal Stafford loans (both subsidized and unsubsidized), Federal PLUS loans, and Federal Consolidation loans—routinely change through legislation, federal regulations, and guarantor policies. As the *Common Manual* Governing Board approves new policy language to incorporate these changes, the Manual and its text are updated in an electronic version called the *Integrated Common Manual* (ICM). The ICM is located on the *Common Manual* Website (www.commonmanual.org), and on many guarantor Websites.

The paper and *e-Collection* CD-ROM versions of the Manual are updated and distributed annually. A school or lender may request copies of either version of the Manual by contacting its primary guarantor.

As a supplement to the Manual, guarantors periodically provide bulletins or newsletters to participants, explaining changes to the Manual. This bulletin language may also be found on the *Common Manual* Website and on many guarantor Websites.

Also, it is essential that lenders and schools note guidance given in *Dear Colleague Letters*/*Dear Partner Letters* and Q&A Newsletters published by the U.S. Department of Education (the Department). Copies of these reference materials may be secured from the Department's Information for Financial Aid Professionals (IFAP) Website (www.ifap.ed.gov) and kept in Appendix E of this Manual (see Section 2.3, Other FFELP Resources, for more information).

## 1.3
## Using, Duplicating, and Reprinting of Portions of the *Common Manual*

Guarantors, guarantors' subcontractors, and other members of the higher education and student loan industries may use, duplicate, or reprint the text, graphics, or other information included in the *Common Manual* for purposes of providing information to their clientele without obtaining the oral or written permission of the *Common Manual* Governing Board. All users must include a citation referencing the *Common Manual* as the source when using the information in this manner.

Individuals or organizations not directly affiliated with the higher education or student loan industries must obtain the written permission of the Governing Board prior to using, duplicating, or reprinting any of the information contained in the *Common Manual*. These individuals or groups must provide the Governing Board with a written statement of purpose for using or reprinting information from the *Common Manual*. An individual or group should contact any guarantor and request to speak with the guarantor's *Common Manual* Governing Board representative for information regarding the procedure for obtaining such permission. (See Section 1.5 for guarantor contact information.)

## 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 FFELP 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 for further clarification whenever such situations occur. Below is a list of FFELP guarantors and their assigned federal guarantor identification numbers.

### FFELP Guarantors and Guarantor Identification Numbers

American Education Services (AES) (Pennsylvania Higher Education Assistance Agency) (742)

American Student Assistance (ASA) (725)

College Assist (708)

Educational Credit Management Corporation (ECMC) (951)

Finance Authority of Maine (FAME) (723)

Florida Department of Education, Office of Student Financial Assistance (712)

Georgia Higher Education Assistance Corporation (713)

Great Lakes Higher Education Guaranty Corporation (755)

Illinois Student Assistance Commission (717)

Iowa College Student Aid Commission (ICSAC) (719)

Kentucky Higher Education Assistance Authority (KHEAA) (721)

Louisiana Student Financial Assistance Commission (LASFAC) (722)

Michigan Higher Education Assistance Authority (726)

Missouri Department of Higher Education Student Loan Program (729)

Montana Guaranteed Student Loan Program (MGSLP) (730)

National Student Loan Program (NSLP) (731)

New Hampshire Higher Education Assistance Foundation (NHHEAF) (733)

New Jersey Higher Education Student Assistance Authority (734)

New Mexico Student Loan Guarantee Corporation (NMSLGC) (735)

New York State Higher Education Services Corporation (HESC) (736)

North Carolina State Education Assistance Authority (737)

Northwest Education Loan Association (NELA) (753)

Oklahoma State Regents for Higher Education (740)

Rhode Island Higher Education Assistance Authority (RIHEAA) (744)

South Carolina Student Loan Corporation (745)

Student Loan Guarantee Foundation of Arkansas (SLGFA) (705)

Student Loans of North Dakota (SLND) (738)

Tennessee Student Assistance Corporation (747)

TG (748)

United Student Aid Funds, Inc. (800)

Utah Higher Education Assistance Authority (UHEAA) (749)

Vermont Student Assistance Corporation (VSAC) (750)

### 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.

This page intentionally left blank.

# American Education Services (AES)
# (Pennsylvania Higher Education Assistance Agency)

1200 North Seventh Street • Harrisburg, PA 17102-1444
**www.aesSuccess.org**

| Questions Regarding | Department | Telephone Number |
|---|---|---|
| Bankruptcy | Loan Assets Management | 800-892-7576<br>717-720-2400<br>Fax: 717-720-3908<br>email: claimsinfo@aesSuccess.org* |
| Claims Processing Operations | Loan Assets Management | 800-892-7576<br>717-720-2400<br>Fax: 717-720-3908<br>email: claimsinfo@aesSuccess.org* |
| Compliance Services | Legal & Compliance Services | 717-720-2740<br>Fax: 717-720-3933<br>email:cmpolicy@aesSuccess.org* |
| Customer Services | Multiple Departments | Students & Parents<br>800-692-7392<br>Lenders & Schools<br>800-443-0646 |
| Default Collections | Loan Assets Management | 800-233-0751<br>717-720-3400<br>Fax: 717-720-3909<br>email: default@aesSuccess.org* |
| Default Prevention | Loan Assets Management | 800-443-0646 - Option 8<br>717-720-3400<br>Fax: 717-720-3909<br>email: deftprev@aesSuccess.org* |
| Fraud/Investigations | Legal & Compliance Services | 717-720-2740<br>Fax: 717-720-3933 |
| Lender Manifest/NSLDS | Loan Operations | 800-443-0646<br>Fax: 717-720-3909<br>email: nslds@aesSuccess.org* |
| Loan Consolidation | Network Consolidation | 800-338-5000<br>Fax: 717-720-3910<br>email: network@aesSuccess.org* |
| Loan Forgiveness | Loan Operations | Students & Parents<br>800-692-7392<br>Financial Aid Administrators<br>888-443-0646 Option 3 |
| Loan Servicing | Customer Service | 800-233-0557 (U.S. & Canada)<br>717-720-3100 (International)<br>Borrowers<br>Fax: 717-720-3916<br>Schools<br>Fax: 717-720-3920<br>email: aescs@aesSuccess.org* |
| NSLDS | Loan Operations | 800-443-0646<br>Fax: 717-720-3909<br>email: nslds@aesSuccess.org* |
| Ombudsman | Loan Operations | 717-720-2614<br>Fax: 717-720-7578<br>email: aesOmbudsman@pheaa.org* |

## American Education Services (AES)
## (Pennsylvania Higher Education Assistance Agency) (continued)

| Questions Regarding | Department | Telephone Number |
|---|---|---|
| Ordering Program Materials | Loan Operations | 800-443-0646<br>Fax: 717-720-3645<br>email: loanhelp@aesSuccess.org* |
| Program Review/<br>Institution Eligibility | Legal & Compliance Services | 717-720-2740<br>Fax: 717-720-3933 |
| Skiptracing for Delinquent<br>or Defaulted Loans | Loan Assets Management | 866-288-0026<br>717-720-3400<br>Fax: 717-720-3909<br>email: locate@aesSuccess.org* |
| Student Status<br>Confirmation Report | Loan Operations | 800-443-0646<br>Fax: 717-720-3909<br>email: nslds@aesSuccess.org* |

*Email is not a secure method of communication because it may be intercepted by third parties. Please do not include any sensitive or private information in your email correspondence directed to AES.

## American Student Assistance

100 Cambridge Street, Suite 1600
Boston, MA 02114
800-999-9080
**www.asa.org**

| Questions Regarding | Contact/Name Division | Phone |
|---|---|---|
| ASA Conference Information | Business Development | 800-999-9080 ext. 6007 |
| ASA Direct | Call Center | 800-999-9080 |
| Claims Processing | Claims Department | 800-999-9080 ext. 6013 |
| Debit Roster | School Management | 800-999-9080 |
| **Defaulted Loans** | | |
| Advice Payment | Payment Solutions | 800-343-2120, option 1 |
| Aversion | Repayment Assistance | 800-343-8883 |
| *Bright Beginnings* | Payment Solutions | 800-343-2120, option 1 |
| Bankruptcy | Specialized Payment Solutions | 800-343-2120, option 2 |
| Collection Agencies | Agency Relations | 800-343-2120, option 4 |
| Collections | Payment Solutions | 800-343-2120, option 1 |
| Loan Discharges/Forgiveness | Borrower Advocacy | 800-343-2120 ext. 5038 |
| Consolidation | Agency Relations | 800-343-2120, option 4 |
| Invalid Default/Disputes | Borrower Advocacy | 800-343-2120 ext. 5038 |
| Payment Arrangements and Solutions | Payment Solutions | 800-343-2120, option 1 |
| Rehabilitation | Agency Relations | 800-343-2120, option 4 |
| Deferments/Forbearance | Repayment Assistance | 800-343-8883 |
| DOR/TOP Process | Support Processing | 800-999-9080 ext. 4529<br>800-999-9080 ext. 2678 |
| EFT Questions | Call Center | 800-999-9080 |
| Entrance/Exit Counseling | School Management | 800-999-9080 |
| FASTFUND Questions | Call Center | 800-999-9080 |
| Guarantee Status | Call Center | 800-999-9080 |
| Guarantee Fee Billing | Business Analysis | 800-999-9080 |
| Lender Manifest Tape Processing | Business Analysis | 800-999-9080 |
| Lender/School Reviews | Internal Audit Dept. | 800-999-9080 ext. 4273<br>800-999-9080 ext. 4669 |
| Legislative | Legislative | 800-999-9080 ext. 3027 |
| National Clearinghouse Processing | Business Analysis | 800-999-9080 |
| NSLDS Resolution (borrowers) | Borrower Advocacy | 800-343-2120 ext. 5008 |
| NSLDS Conflicts/Resolution (guarantors/lenders) | Borrower Advocacy | 800-343-2120 ext. 5008 |
| NSLDS Monthly Submittal (tape) | Business Analysis | 800-999-9080 |
| Ombudsman | Ombudsman | 800-999-9080 ext. 4512 |
| Partial Payments/Cancellations | Call Center | 800-999-9080 |
| Privacy Questions | Regulatory Compliance Dept. | 800-999-9080 ext. 3027 |
| Policy Questions | Regulatory Compliance Dept. | 800-999-9080 ext. 3027 |
| Product/Services Information | Business Development | 800-999-9080 ext. 6233 |
| Regulatory/Statutory Questions | Regulatory Compliance Dept. | 800-999-9080 ext. 3027 |
| Repayment Information | Borrower Counseling Group | 866-493-5563 |
| Student Status Verification | Call Center | 800-999-9080 |
| Treasury Offset | Borrower Advocacy | 800-343-2120 ext. 5008 |
| Administrative Wage Garnishments | Specialized Payment Solutions | 800-343-2120 |

This page intentionally left blank.

## College Assist

999 18th Street, Suite 425
Denver, CO 80202-2440
Telephone Number: (303) 305-3000
Fax: (303) 305-3505
Website: **www.college-assist.com**

| General & Student Information | Phone Number | E-mail Address |
|---|---|---|
| College Assist Main Number | 1-303-305-3000 | askops@college-assist.com |
| Loan Application Questions<br>Toll-free | 1-303-305-3500<br>1-800-727-9834 | askops@college-assist.com |
| Default Aversion Assistance<br>Toll-free | 1-303-305-3355<br>1-800-825-2520 | repayHelp@college-assist.com |
| Borrower Loan Repayment Questions<br>Toll-free | 1-303-305-3050<br>1-800-727-9834 | n/a |
| Loan Default Questions<br>Toll-free | 1-303-305-3333<br>1-800-333-2858 | solutions@college-assist.com |

| School & Lender Contact Information | | |
|---|---|---|
| Loan Processing Questions<br>Toll-free<br>Fax number | 1-303-305-3555<br>1-800-727-9834<br>1-303-305-3442 | askops@college-assist.com |
| Claim Questions | 1-303-305-3372<br>1-303-305-3345 | n/a |
| Colorado Servicing Consortium Main Number | 1-888-696-5660 | n/a |
| Compliance, Training & Investigations | 1-303-305-3312<br>1-303-305-3308 | compliance@college-assist.com |
| Contracts for Lenders & Schools | 1-303-305-3493 | n/a |
| Foreign School Processing | 1-303-305-3294 | askops@college-assist.com |
| Forms/Supplies (to order) | 1-303-305-3488 | n/a |
| Information Services Help Desk | 1-303-305-3323 | helpdesk@college-assist.com |
| NSLDS | 1-303-305-3399 | n/a |
| Ombudsman | 1-303-305-3274 | n/a |

This page intentionally left blank.

# Educational Credit Management Corporation (ECMC)

**www.ecmc.org**

MINNESOTA
1 Imation Place
Building 2
Oakdale, MN 55128
Toll Free 1-888-221-3262
Local 651-221-0566
TDD/TTY 651-325-3035
Main Fax 651-325-3495

| Questions Regarding | Department/Contact | Phone Number | E-Mail Address |
|---|---|---|---|
| Application Processing | Toll Free<br>Fax | 888-221-3262<br>651-325-3319 | customersupport@ecmc.org |
| AWG Hearings | Mike Helderman<br>Steven Everhart | 651-325-3247<br>651-325-3335 | mhelderman@ecmc.org<br>severhart@ecmc.org |
| Bankruptcy Processing | Jan Jacobson<br>Mary Sandness | 651-325-3486<br>651-325-4080 | jjacobson@ecmc.org<br>msandness@ecmc.org |
| Bankruptcy Transfers | Tabitha McCloy-Chattard<br>Jan Jacobson | 651-325-3351<br>651-325-3486 | tmccoy-chattard@ecmc.org<br>jjacobson@ecmc.org |
| CAM | Rebecca McCord<br>Kathy Sizemore | 651-325-3333<br>651-325-4073 | rmccord@ecmc.org<br>ksizemore@ecmc.org |
| Claims | Tulana Hackett<br>Mary Sandness | 651-325-3316<br>651-325-4080 | thackett@ecmc.org<br>msandness@ecmc.org |
| Collections | Borrower Information<br>Jon Gargaro<br>Mike Heffernan | 800-780-7997<br>651-325-3220<br>651-325-4090 | <br>jgargaro@ecmc.org<br>mheffernan@ecmc.org |
| Compliance | Matt Mikulski<br>Laurie Huusko | 651-325-3010<br>651-325-3090 | mmikulski@ecmc.org<br>lhuusko@ecmc.org |
| Consolidation Loans | Toll Free<br>Fax | 888-221-3262<br>651-325-3319 | customersupport@ecmc.org |
| Default Prevention | Steven Everhart<br>Mai Lo Lee<br>Toll Free | 651-325-3335<br>651-325-3306<br>888-295-1121 | severhart@ecmc.org<br>mlee@ecmc.org<br>avoidingdefault@ecmc.org |
| ECMC Foundation | March Kessler | 505-428-2121 | mkessler@ecmc.org |
| Financial Awareness | Paula Craw | 757-374-6771 | pcraw@ecmc.org |
| Lender Billing | Kathy Sizemore | 651-325-4073 | ksizemore@ecmc.org |
| Marketing | Dave Hawn | 651-325-3551 | dhawn@ecmc.org |
| Newsletter/Publications | Geri Gjesdahl | 651-325-4071 | gjesdahl@ecmc.org |
| NSLDS Lender Manifest Processing | Rebecca McCord<br>Kathy Sizemore | 651-325-3333<br>651-325-4073 | rmccord@ecmc.org<br>ksizemore@ecmc.org |
| Ombudsman | Diane Zitur | 651-325-3015 | dzitur@ecmc.org |

## Educational Credit Management Corporation (ECMC)

| Questions Regarding | Department/Contact | Phone Number | E-Mail Address |
|---|---|---|---|
| Privacy | Laurie Huusko | 651-325-3090 | lhuusko@ecmc.org |
| Public Information | Dick Boyle | 651-325-3353 | boyle@ecmc.org |
| Records | Jeff Jones | 651-325-3310 | jjones@ecmc.org |
| Regulatory Interpretation | Laurie Huusko<br>Mike Hawkes | 651-325-3090<br>804-267-7101 | lhuusko@ecmc.org<br>mhawkes@ecmc.org |

# ECMC – California

P.O. Box 419045
Rancho Cordova, CA 95741-9045
Street Address
2431 Mercantile Drive, Suite E
Rancho Cordova, CA 95742-6252
Toll Free 1-866-222-2680
Main Fax 916-526-7937

| Questions Regarding | Department/Contact | Phone Number |
|---|---|---|
| Bankruptcy | See previous ECMC page | |
| Claims (All types) | Claim Adjudication<br>Fax | (916) 526-7367<br>(916) 526-7384 |
| Claim Averts/Recalls | Claim Adjudication Unit<br>Fax | (916) 526-8936<br>(916) 526-7393 |
| Closed School (Borrowers) | Post Default Services<br>Fax | (800) 367-1590<br>(916) 526-7209 |
| Default Collections | Internal Collections Unit<br>Fax | (800) 367-1589<br>(916) 526-7517 |
| Default Prevention | Default Prevention Unit<br>Fax | (800) 298-9490<br>(916) 526-7392 |
| False Certification (Borrowers) | Post Default Services Unit<br>Fax | (800) 367-1590<br>(916) 526-7209 |
| False Certification<br>(Schools & Lenders) | Post Default Services Unit<br>Fax | (800) 367-1590<br>(916) 526-7209 |
| FAPS | Information Line | (916) 526-8260 |
| Forms and Publications | Shipping Center<br>Fax | (916) 526-7282<br>(916) 526-8838 |
| Fraud | Office of the Inspector General | (800) 647-8733 |
| IRS/FTB Offset | Post Default Services Unit | (800) 367-1590 |
| Lender Inquiries | Client Support Services<br>Fax | (866) 222-2680<br>(916) 526-7937 |
| Loan Status Inquiries<br>(Borrowers) | Client Support Services<br>Fax | (866) 222-2680<br>(916) 526-7937 |
| Repurchases | Claim Adjudication Unit<br>Fax | (916) 526-8215<br>(916) 526-7384 |
| School Inquiries | Client Support Services<br>Fax | (866) 222-2680<br>(916) 526-7937 |

This page intentionally left blank.

## Finance Authority of Maine (FAME)

5 Community Drive
P.O. Box 949
Augusta, ME 04332-0949
(800) 228-3734
(207) 623-3263
Fax (207) 623-0095
**www.famemaine.com**

OR
Guarantor Servicer: Sallie Mae
PO Box 6180
Indianapolis, IN 46206-6180
(800) 428-9250

| Question Regarding | Contact | Telephone Number |
|---|---|---|
| Account Update File for Lenders | Indianapolis, IN | (800) 348-4606 |
| Claims | Indianapolis, IN | (800) 766-0084, ext. 6937 |
| CommonLine | Indianapolis, IN | (800) 348-4606 |
| Compliance Services | Augusta, ME | (800) 228-3734 |
| Contracts | Augusta, ME | (800) 228-3734 |
| Customer Assistance | Augusta, ME<br>Indianapolis, IN (Lender, School, GA)<br>Indianapolis, IN (All Others) | (800) 228-3734<br>(888) 272-4665<br>(888) 272-5543 |
| Default Prevention | Augusta, ME | (800) 228-3734 |
| NSLDS | Indianapolis, IN | (888) 272-4665 |
| Ombudsman | Augusta, ME | (800) 228-3734 |
| Post Claims Assistance | Indianapolis, IN | (800) 331-2314 |
| Pre-Claims Assistance | Indianapolis, IN | (800) 635-3743 |
| Regulatory/Policy Questions | Augusta, ME | (800) 228-3734 |
| SSCR | Indianapolis, IN | (888) 272-4665 |

This page intentionally left blank.

## Florida Department of Education
## Office of Student Financial Assistance

325 West Gaines Street
Tallahassee, Florida 32399

Post Office Box 7019
Tallahassee, Florida 32314-7019

Telephone: (850) 410-5200
FAX: (850) 488-3612

| For Questions Regarding | Contact | Telephone Number |
|---|---|---|
| Bankruptcy | Susan Sheard | (850) 245-1981 |
| Claims | Dottie Kirkland | (850) 245-1986 |
| Closed School/False Certification | Chuck Mellow | (850) 245-1831 |
| Cohort Default Rate | Jeanie Carter | (850) 410-5227 |
| Collections | LouAnne Standley | 1-800-262-6732 |
| Common Manual | Reitha Scott | (850) 410-6846 |
| Consolidation | Gloria Gilliam | (850) 245-1834 |
| Customer Service | | 1-800-366-3475 |
| Default Aversion | Jeanie Carter | (850) 410-5227 |
| Disability/Death | Amy Carr | (850) 245-1971 |
| Fraud | Chuck Mellow | (850) 245-1831 |
| Lender and School Agreements | Onaleah McClellan | (850) 410-6852 |
| Lender and School Reviews | Chuck Mellow | (850) 245-1831 |
| Outreach Representatives | Lori Auxier | (850) 212-2997 |
| NSLDS & Clearinghouse | Amanda Walker | (850) 245-1886 |
| Policy and Procedures | Reitha Scott | (850) 410-6846 |
| Record Maintenance/Fees | Gloria Gilliam | (850) 245-1834 |
| Rehabilitation | Dottie Kirkland | (850) 245-1986 |
| Repurchase | Amy Carr | (850) 245-1971 |
| Systems | Mike Wade | (850) 245-1836 |
| Training | Barb Dombrowski | (850) 410-5191 |
| Treasury Offset | Heather Johnson | (850) 245-1978 |

This page intentionally left blank.

## Georgia Higher Education Assistance Corporation

2082 East Exchange Place
Tucker, Georgia 30084
(770) 724-9000
1-800-505-GSFC

**www.gsfc.org**

| Questions Regarding | Contact/Division | Telephone Number |
|---|---|---|
| Borrower Inquiries for Loan Originations & Disbursement status | Student Aid Services | 1-800-505-4732 or 770-724-9000 |
| Lender Services | FFEL Originations | 770-724-9238 |
| Direct School Line | Student Aid Services | 1-800-414-3080 |
| Lender Disbursement/Funds Transfer | Accounting Services | 770-724-9116 |
| Guarantor Information | Post-Secondary Student & School Services | 770-724-9066 |
| NSLDS Lender Manifest | Data Integrity & System Management | 770-724-9167 |
| NSLDS SSCR | Data Integrity & System Management | 770-724-9210 |
| Ombudsman | FFEL Originations & Compliance | 770-724-9238 |
| Cohort Default Rate Appeals | FFEL Originations & Compliance | 770-724-9238 |
| Closed Schools | FFEL Originations & Compliance | 770-724-9238 |
| Default Prevention | Post-Secondary Student & School Services | 770-724-9083 |
| Claims Information | Claims Review | 770-724-9140 |
| Default Loans | Default Collections | 770-724-9155 |
| Program Inquiry | Student Aid Services | 1-800-414-3080 (option 3) |
| SCHOLARNet | Help Desk | 770-724-9327 |
| Outreach Staff | Client Services | 770-724-9071 |
| Website | GACollege411 | 1-800-505-4732 or 770-724-9000 |

This page intentionally left blank.

# Great Lakes Higher Education Guaranty Corporation

**mygreatlakes.org**

| Minnesota | South Dakota | Wisconsin |
|---|---|---|
| 444 Cedar Street, Ste. 600<br>St. Paul, MN 55101 | 115 First Avenue S.W.<br>Aberdeen, SD 57401 | 2401 International Lane<br>Madison, WI 53704 |

| Questions Regarding | Contact / Division | | Telephone No. | Fax |
|---|---|---|---|---|
| Bankruptcy | Claims Examination | | (608) 246-1603<br>bkey@glhec.org | (866) 695-4178 |
| Claims Processing | Claims Examination | | (608) 246-1603<br>claimsreview@glhec.org | (866) 695-4178 |
| Customer Service | Borrower Services | Borrowers | (800) 236-4300<br>borrowers@mygreatlakes.org | |
| | Client Services | Schools/Lenders | (888) 686-6919<br>clientservices@glhec.org | |
| Default | Default Collections | Borrowers<br>AWG<br>Collection Support | (888) 601-9976<br>(866) 348-0712<br>(800) 354 6980 | |
| Default Aversion | Repayment Solutions | Schools/Lenders<br>Borrowers | (800) 756-4989<br>(800) 236-2700<br>repaymentsolutions@glhec.org | (608) 246-1646<br>(888) 715-2725 |
| Default Management Resources | Product Development & Marketing | | (608) 240-1375<br>guarantyproducts@glhec.org | |
| Forms/Supply Requests | Online | Schools<br>Lenders | mygreatlakes.org/school/content/school/supplies.html<br>mygreatlakes.org/lender/content/lender/supplies.html | |
| Guarantor Policy | Policy & Regulatory Compliance | | (608) 240-1212<br>policy@glhec.org | (866) 678-5951 |
| Guaranty/Federal Default Fee Billing | Guaranty Financial Services | | (608) 246-1659 | (608) 246-1434 |
| Lender Reports | CDS & Lender Services | | (608) 246-1640<br>lenderreporting@glhec.org | (608) 246-1619 |
| | Portfolio Conversions | | (608) 246-1675 | (608) 246-1694 |
| NSLDS | Guaranty Financial Services | | NSLDS2@glhec.org | |
| Ombudsman | Policy & Regulatory Compliance | | (866) 486-7140<br>ombudsman@glhec.org | (800) 749-8537 |
| Products/Services | Client Services | | (888) 686-6919 | |
| Regulation Assistance | Policy & Regulatory Compliance | | (608) 240-1212<br>policy@glhec.org | |
| Student Status Confirmation | Loan Status Processing | | (608) 246-1565 | (608) 246-1694 |

This page intentionally left blank.

# Illinois Student Assistance Commission

1755 Lake Cook Road
Deerfield, IL 60015
Telephone Number (800) 899-ISAC(4722)
Web Address: **www.collegezone.com**

| Questions Regarding | Contact | Phone Number - E-Mail Address | |
|---|---|---|---|
| **Lender Inquiries** | Lender Services | 800.477.4411 | isac.lenderservices@isac.illinois.gov |
| • Common Account Maintenance<br>• Electronic Loan Processing<br>• Guarantee Processing<br>• Late Disbursement<br>• Lender Training<br>• Loan Consolidation<br>• NSLDS - Lender Manifest<br>• Policy Questions<br>• Regulatory Interpretation | | | |
| **School Inquiries** | School Services | 866.247.2172 | isac.schoolservices@isac.illinois.gov |
| • Application Processing<br>• Disbursement Information<br>• Foreign School Loan Processing<br>• Guarantee Status<br>• Policy Questions<br>• Regulatory Interpretation<br>• School Training | | | |
| **Borrower Inquiries** | College Zone Counselors | 800.899.4722 | isac.collegezone@isac.illinois.gov |
| • Application Processing<br>• Disbursement Information<br>• Guarantee Status<br>• Repayment Information | | | |
| **Default Prevention** | | | |
| • Default Aversion Assistance<br>• Outreach Services | DP Counselors<br>DP Outreach | 800.899.4722<br>800.899.4722 | isac.proreq@isac.illinois.gov |
| **Defaulted Loans** | | | |
| • Collections<br>• Consolidation, Rehabilitation, and Repurchases<br>• Claim Inquiries | Debt Management<br>Accounting<br>Claims Services | 800.934.3572<br>800.934.3572<br>800.477.4411 | <br><br>isac.lenderreimbursement@isac.illinois.gov |
| **Secondary Market** | Illinois Designated Account Purchase Program - IDAPP | **www.idapp.com** | |
| • Borrower Repayment<br>• Loan Origination | | 800.366.5755<br>800.961.IDAP (4327) | |

This page intentionally left blank.

## Iowa College Student Aid Commission (ICSAC)

200 10th St Fl 4
Des Moines, IA 50309-3609
Telephone Number: (877) 272-4456
Fax Number: (515) 725-3401
Website: **www.iowacollegeaid.gov**

| Question Regarding | Contact/Division | Telephone Number |
|---|---|---|
| Application Processing | iLINK Service Center | (800) 833-4876 |
| Bankruptcy | Borrower Services Division | (800) 383-4222 |
| Claims Processing | Claims Department | (877) 272-4456 |
| Cohort Default Rate Appeals | Claims Department | (877) 272-4456 |
| Collections/Defaulted Loans | Borrower Services Division | (800) 383-4222 |
| Customer Service | Information Service Center | (877) 272-4456 |
| Default Aversion Assistance | Borrower Services Division | (800) 383-4222 |
| Default Prevention | Borrower Services Division | (800) 383-4222 |
| Disbursement Information | iLINK Service Center | (800) 833-4876 |
| Financial Literacy | Marketing and Communications | (877) 272-4456 |
| Guarantee Processing | iLINK Service Center | (800) 833-4876 |
| Late Disbursement | iLINK Service Center | (800) 833-4876 |
| Lender Participation | Information Service Center | (877) 272-4456 |
| Lender/School Relations | Marketing and Communications | (877) 272-4456 |
| Lender/School Reviews | Compliance | (877) 272-4456 |
| National Student Clearinghouse | Information Service Center | (877) 272-4456 |
| National Student Loan Data System | Information Service Center | (877) 272-4456 |
| Partial Payments/Cancellations | iLINK Service Center | (800) 833-4876 |
| Publications and Brochures | Information Service Center | (800) 383-4222 |
| Regulatory/Policy Questions | Policy Analyst | (877) 272-4456 |
| Scholarships/Grants | Program Administration | (877) 272-4456 |
| Software Support | iLINK Service Center | (800) 833-4876 |
| Status Changes | iLINK Service Center | (800) 833-4876 |

This page intentionally left blank.

## Kentucky Higher Education Assistance Authority (KHEAA)

P.O. Box 798
Frankfort, KY 40602-0798
(502) 696-7200
(800) 928-8926
**Web Site:** www.kheaa.com
**E-mail Inquiries:** inquiries@kheaa.com

**Fax Numbers:**

Executive Office: (502) 696-7496
Financial Affairs: (502) 696-7425
Guarantee Services: (502) 696-7305
Legal Services: (502) 696-7293
Information Systems: (502)696-7345
Student Services: (502) 696-7373

| Questions Regarding | Telephone Number |
|---|---|
| Alabama Student Loan Program | (800) 721-9720 |
| Borrower Inquiries | (800) 928-8926 |
| Business Development | (800) 928-8926 |
| Change Processing-Cancellations/Refunds | (800) 617-2699 |
| Claims | (502) 696-7227 |
| Compliance/Policy | (800) 928-8926 |
| Contracts | (800) 928-8926 |
| Customer Relations | (800) 928-8926 |
| Default Appeals | (800) 928-8926 |
| Default Aversion | (800) 928-5327 |
| Default Collections | (800) 928-4241 |
| Forms | (800) 928-8926 |
| Guarantee Services | (800) 617-2699 |
| IRS Offsets | (800) 928-8926 |
| Lender Manifest | (800) 617-2699 |
| NSLDS | (800) 928-8926 |
| Ombudsman | (800) 928-8926 |
| Outreach Services | (800) 928-8926 |
| Publication and Outreach | (800) 928-8926 |
| Repurchases | (800) 928-8926 |
| SSCR | (800) 928-8926 |
| Technical Support | (800) 818-2678 |
| Training | (800) 928-8926 |

This page intentionally left blank.

# 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
**www.osfa.state.la.us**

| Questions Regarding | Contact/Division | Telephone Number |
|---|---|---|
| Applications | School and Lender Section | (225) 925-7727 |
| Bankruptcies | Legal | (225) 922-1034 |
| Cancellations | Loan Administration | (225) 922-1030 |
| Claim Processing | Claims | (225) 922-1072 |
| Cohort Default Rate Appeals | Compliance | (225) 922-0584 |
| Cure Procedures | Claims | (225) 922-1072 |
| Default Prevention Information | Default Prevention | (225) 922-1076 |
| Deferment and Forbearance | Default Prevention | (225) 922-1076 |
| Guarantee Fee Billing/Refunds | Loan Administration | (225) 922-1030 |
| Lender Manifest/Status Changes | Loan Administration | (225) 922-1016 |
| Litigation | Legal | (225) 922-1133 |
| Loan Consolidation | Loan Administration | (225) 922-1016 |
| NSLDS | Loan Administration | (225) 922-1029 |
| Ordering Supplies | School and Lender Section | (225) 925-7727 |
| Post-Claims Information | Collections | (225) 922-1086 |
| Program Reviews | Compliance | (225) 922-1021 |
| Regulatory/Policy | Policy Analyst | (225) 922-1093 |
| Student Status Confirmation | Loan Administration | (225) 922-1136 |
| Technical Assistance | Compliance<br>Policy Analyst | (225) 922-1021<br>(225) 922-1093 |
| Training | School and Lender Section | (225) 925-7727 |

This page intentionally left blank.

# Michigan Higher Education Assistance Authority (MHEAA)

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

**Email Address**
**mga@michigan.gov**

**Web Site**
**www.MGALOAN.com**

**MICHIGAN GUARANTY AGENCY**
**P.O. Box 30047**
**Lansing, Michigan 48909-7547**

**Fax Numbers**

| | |
|---|---|
| **Administration** | **517-241-0155** |
| **Audit/Program Review** | **517-241-0155** |
| **Claims and Collections** | **517-636-0655** |
| **Fiscal** | **517-373-1741** |
| **Guaranty Services** | **517-241-0155** |
| **Customer Services** | |
| **Lender Services** | |
| **School Services** | |

A call to the above telephone numbers originating from a touch-tone telephone can be routed automatically by following the instructions you will hear.

**ADDRESS UPDATE**
Borrower ... Customer Services .. 1-888-272-5543
Lender ... Lender Services ... 36076
School ... School Services ... 36076

**BANKRUPTCY**
Lender or Borrower ... Rita Ray ... 60614
School ... Customer Services-Lansing ... 36076

**BORROWER DEBT MANAGEMENT REPORT** ... School Services ... 36076

**CLAIMS**
Disability and Bankruptcy ... Tom Montgomery ... 60613
Repurchase ... Tom Montgomery ... 60613
Resubmission ... Tom Montgomery ... 60613
Returned or Rejected Claims ... Tom Montgomery ... 60613
Supplemental Payment Requests Tom Montgomery ... 60613

**CLOSED SCHOOLS** ... Michelle Spitzley ... 60828

**COLLECTIONS**
Borrower Account Status ... Collections ... 60600
Eligibility ... Collections ... 60600

**CUSTOMER SERVICES**
Borrower Record Inquires ... Customer Services .. 1-800-824-7044
General Program Questions ... Customer Services .. 1-800-824-7044
Loan Processing and Status ... Customer Services .. 1-800-824-7044
NSLDS Issues ... Tom Trudgeon ... 60633
Special Projects ... Customer Services-Lansing ... 36076

**COHORT DEFAULT RATES**
Appeals ... Dan Tryon ... 34981
Rates ... Dan Tryon ... 34981
Reports ... Dan Tryon ... 34981

**DEFAULTED LOANS** ... Collections ... 60600

**DEFAULT PREVENTION** ... (Borrowers call) ... 1-800-635-3786
Delinquent Loans ... Default Prevention ... 1-317-578-6916
LRA Rescinds ... Default Prevention ... 1-317-578-6916

**DEFERMENTS** ... Customer Services-Lansing ... 36076

***EDUCATIONAL LOAN NOTES*** ... Patricia Fromm ... 36076

**FOREIGN SCHOOLS** ... Customer Services .. 1-800-824-7044

**FORMS AND SUPPLIES** ... Kara Scheeneman ... 53031

**FRAUD**
False Certification ... Susie Gibson ... 56769

**LENDER AND SCHOOL AUDITS AND REVIEWS** ... Dan Tryon ... 34981

**LENDER SERVICES**
Electronic Processes ... Lender Services ... 36076
Issues/Concerns ... Lender Services ... 36076
Lender Agreements ... Lender Services ... 36076
Loan Discharges ... Michelle Spitzley ... 60828
Teacher Loan Forgiveness ... Michelle Spitzley ... 60828
Total and Permanent Disability .. Tom Montgomery ... 60613

**LOAN PROCESSING**
Borrower Record Inquiries ... Customer Services ... 1-800-824-7044
General Program Questions ... Customer Services ... 1-800-824-7044
Loan Processing and Status ... Customer Services ... 1-800-824-7044
NSLDS Issues ... Tom Trudgeon ... 60633
Special Projects ... Customer Services-Lansing ... 36076

**NSLDS QUESTIONS** ... Tom Trudgeon ... 60633

**OMBUDSMAN SERVICES** ... Pat Fromm ... 36076

**POLICY & REGULATION QUESTIONS** ... Dan Tryon ... 34981

**REHABILITATION** ... Collections ... 60600

**REPORTS**
Lender ... Lender Services ... 36076
School ... School Services ... 36076

**SCHOOL SERVICES**
Issues/Concerns ... School Services ... 36074

**SSN DISCREPANCIES**
Lender or Borrower ... Teresa Spagnuolo ... 60606
School ... Customer Services-Lansing ... 36076

This page intentionally left blank.

# Missouri Department of Higher Education (MDHE)
# Student Loan Program

205 Jefferson Street
P.O. Box 1469
Jefferson City, MO 65102-1469

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

| Department | Telephone Number |
|---|---|
| Administration | (573) 751-2361 |
| Administrative Wage Garnishment | (573) 751-3940<br>(800) 473-6757 |
| Attorney | (573) 751-2361 |
| Audits | (573) 522-1363 |
| Claims | (800) 824-4893 |
| Compliance | (573) 751-1767 |
| Disputes | (800) 824-4893<br>(573) 751-3940 |
| Information Center | (800) 473-6757<br>(573) 751-3940 |
| Loan Services | (800) 824-4893 |
| Policy | (573) 751-1767 |
| Default Aversion | (800) 473-6757<br>(573) 751-3940 |
| Operations | (800) 824-4893 |
| Collections | (800) 824-4893 |

This page intentionally left blank.

# 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<br>Compliance<br>Disbursements<br>Loan Consolidation | Customer Support<br>E-mail: custserv@mgslp.state.mt.us<br>E-mail: disb@mgslp.state.mt.us | (800) 537-7508 |
| Default Prevention | E-mail: defaultprev@mgslp.state.mt.us | (877) 293-8946 (Toll Free) |
| Default Resolution:<br>Loan Default<br>Loan Rehabilitation<br>Subrogation<br>Wage Garnishment | Default Resolution<br>E-mail: postclaims@mgslp.state.mt.us | (800) 322-3086 |
| Administration<br>Scholarships/Grants | <br>E-mail: custserv@mgslp.state.mt.us | (406) 444-6594<br>(406) 444-0638 |

This page intentionally left blank.

## National Student Loan Program (NSLP)

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
E-mail address: nslpcs@nslp.org

| 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 | Policy, Research, and Education | 6411 |
| Cohort Default Rate Appeals | Policy, Research, and Education | 6859 |
| Collection of Defaulted Loans | Collections | 6380 |
| Default Aversion Assistance | Default Aversion | 6800 |
| Electronic Loan Processing (ELITE, CommonLine) | Staci Stewart/Product Support | 6950 |
| Electronic Products and Interfaces | Staci Stewart/Product Support | 6950 |
| False Certification | Policy, Research, and Education | 6411 |
| Financial Literacy | Financial Literacy | 6858 |
| Form and Publication Order | Customer Service | 6300 |
| Federal Default Fee Billing | Accounting and Finance | 6637 |
| Guarantee Processing | Customer Service | 6300 |
| Guarantee Status | Customer Service | 6300 |
| Lender Participation | Business Development | 6877 |
| Lender/School Relations | Business Development | 6877 |
| Lender and School Reporting | Customer Service/Account Administration | 6300 or 6101 |
| Lender/School Reviews | Policy, Research, and Education | 6706 |
| Lender/School Training | Marketing | 6823 |
| National Student Clearinghouse | Account Administration | 6101 |
| National Student Loan Data System | Account Administration | 6101 |
| Ombudsman | Policy, Research, and Education | 6411 |
| Policy Inquiries (Lender) | Policy, Research, and Education | 6706 |
| Policy Inquiries (School) | Policy, Research, and Education | 6706 |
| School Participation | Customer Service | 6300 |
| Student Status Change Reporting | Account Administration | 6101 |
| Teacher Loan Forgiveness | Policy, Research, and Education | 6410 |
| Unpaid Refund | Policy, Research, and Education | 6411 |

This page intentionally left blank.

## New Hampshire Higher Education Assistance Foundation

P.O. Box 877
4 Barrell Court
Concord, NH 03302-0877
(603) 225-6612 ~ (800) 525-2577
**www.nhheaf.org**

Loan Origination Department
(800) 525-2577 ext. 6700
Fax: (603) 227-5402
loanoriginationmailbox@gsmr.org

Compliance Department
(603) 225-6612 ext. 120
Fax: (603) 227-5411
compliance@gsmr.org

Claims & Recoveries Department
(603) 225-6612 ext. 6003
Fax: (603) 227-5403
claims@nhheaf.org

Human Resources Department
(603) 225-6612 ext. 125
Fax: (603) 225-7469
hr@gsmr.org

Information Services Technical Help Desk
(603) 225-6612 ext. 100
helpdesk@gsmr.org

Center for College Planning
(603) 225-6612 ext. 119
Fax: (603) 228-6726
collegeplanning@nhheaf.org

This page intentionally left blank.

## New Jersey Higher Education Student Assistance Authority

4 Quakerbridge Plaza
P. O. Box 540
Trenton, NJ 08625

Telephone Number: 800-792-8670
Fax Number: 609-588-2390
Web address: **www.hesaa.org**

| | |
|---|---|
| Audits & Quality Assurance Unit: | |
| LaRS Reporting | (800)792-8670 Ext. 4026 |
| Program Review | (800)792-8670 Ext. 4026 |
| Client Services Unit: | |
| Application Processing | (800)792-8670 |
| The Authority Newsletter | (800)792-8670 Ext. 3214 |
| Lender/School Relations | (800)792-8670 Ext. 4486 |
| Training | (800)792-8670 Ext. 4486 |
| Governmental Relations & Legal Affairs: | |
| Compliance Issues | (800)792-8670 Ext. 7121 |
| Regulatory Interpretation | (800)792-8670 Ext. 7121 |
| Loan Processing Unit: | |
| Alternative Loan Program (NJCLASS) | (800)792-8670 Ext. 4020 |
| CommonLine | (800)792-8670 Ext. 3219 |
| Lender of Last Resort/Special Loan Unit | (800)792-8670 Ext. 3744 |
| NSLDS | (800)792-8670 Ext. 3223 |
| NSLDS Lender Manifest | (800)792-8670 Ext. 3223 |
| Enrollment Reporting | (800)792-8670 Ext. 4600 |
| Ombudsman Unit: | |
| Closed School | (800)792-8670 Ext. 3351 |
| False Certification | (800)792-8670 Ext. 3351 |
| Ombudsman | (800)792-8670 Ext. 3351 |
| Unpaid Refund | (800)792-8670 Ext. 3351 |
| Preclaim/Claim Unit: | |
| DAA Requests and Claim Submittal | (800)792-8670 Ext. 3240 |
| Cohort Default Rate Appeals | (800)792-8670 Ext. 4029 |
| Default Prevention and Financial Literacy | (800)792-8670 Ext. 3236 |
| Post-Default Collections/Servicing Unit: | |
| Default Collections | (800)792-8670 Ext. 3310 |
| Reinstatement/Rehabilitation | (800)792-8670 Ext. 3310 |
| Bankruptcy | (800)792-8670 Ext. 3882 |
| NJCLASS Servicing | (800)792-8670 Ext. 3310 |
| Research Unit and Policy Analysis: | |
| Research & Statistics | (800)792-8670 |

This page intentionally left blank.

## New Mexico Student Loan Guarantee Corporation (NMSLGC)

7400 Tiburon 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. 1012 |
| Claims | (505) 345-8821 Ext. 1361 |
| Compliance and Program Review | (505) 345-8821 Ext. 1360 |
| Customer Assistance for Schools and Lenders | (505) 279-3070 Ext. 1471 |
| Customer Assistance for Students | (505) 279-3070 Ext. 1471 |
| Customer Service and Training | (505) 345-8821 Ext. 1351 |
| Default Prevention & Aversion | (505) 345-8821 Ext. 1370 |
| NSLDS | (505) 345-8821 Ext. 1351 |
| Post Claim:<br>Loan Rehabilitation<br>Subrogation<br>Wage Garnishment | (505) 345-8821 Ext. 1361 |

This page intentionally left blank.

# New York State
# Higher Education Services Corporation (HESC)

99 Washington Ave.
Albany, NY 12255

| | |
|---|---|
| **GENERAL TELEPHONE NUMBERS** | |
| General Information - Application Status, Loan Processing | (866) 431-HESC |
| Default Prevention and Collection | (800) 666-0991 |
| **GUARANTEE OPERATIONS** | |
| Director | (518) 402-3357 |
| Assistant Director | (518) 408-3314 |
| Loan Processing | (518) 473-5414 |
| Loans EFT | (518) 473-4222 |
| NSLDS/Lender Manifest | (518) 486-7403 |
| Student Certification | (518) 483-2159 |
| Renewed Eligibility for Financial AID/Title IV Aid (REFA, RETA) | (518) 486-5366 |
| School Information Update | (518) 474-2211 |
| **COLLECTION DEFAULT MANAGEMENT** | |
| Assistant Vice President | (518) 402-1478 |
| Director | (518) 402-1478 |
| Lender and School Information and Assistance Unit | (800) 666-0991 |
| Default Repurchases | (800) 666-0991 |
| Litigation and Vendor Collection | (800) 666-0991 |
| **COLLECTION SUPPORT & REPORTING** | |
| Director | (518) 402-1305 |
| Default Finance | (518) 402-1311 |
| DAAR/Claim | (518) 402-1219 |
| Rehabilitation | (518) 402-1370 |
| Disability | (518) 402-1258 |
| **BUREAU OF REGULATORY COMPLIANCE** | |
| Director | (518) 473-1575 |
| Regulatory Compliance | (518) 473-3986 |
| OFFICE OF COUNSEL | |
| Deputy Counsel | (518) 474-3219 |
| Bankruptcy | (518) 473-1581 |
| **CUSTOMER RELATIONS** | |
| College and University Relations | (518) 473-0842 |
| Regional Service Managers | (518) 474-3986 |
| Training and Outreach | (518) 402-6429 |
| Priority Services | (518) 473-0480 |

This page intentionally left blank.

# North Carolina State Education Assistance Authority Guarantee Agency

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

College Foundation Inc.
PO Box 41966
Raleigh, NC 27629-1966
Telephone Number: 919/834-2893
866/866-2362
Fax: 919/821-3139

## Prior to Default

| Question Regarding | Contact/Division | Telephone Number |
|---|---|---|
| School Inquiries: | | |
| Adjustments | Loan Origination | 800/532-2832 or 919/834-2893 |
| Application Processing | Loan Origination | 800/532-2832 or 919/834-2893 |
| Deferments/Forbearance | Repayment Services | 866/866-2362 or 919/834-2893 |
| Electronic Services | Electronic Specialist | 800/532-2832 or 919/834-2893 |
| Clearinghouse | Repayment Services | 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 |
| NSLDS | Repayment Services | 800/532-2832 or 919/834-2893 |
| NC National College Savings Program | Information Call Center | 800/600-3453 or 919/834-2893 |
| NC Student Incentive Grant | Grant Coordinator | 800/532-2832 or 919/834-2893 |
| Repayment | Special Collections | 866/866-2362 or 919/834-2893 |
| School Services: | | |
| General Information | Information Call Center | 800/532-2832 or 919/834-2893 |
| Exit Counseling | Information Call Center | 800/532-2832 or 919/834-2893 |
| Publications | Information Call Center | 800/532-2832 or 919/834-2893 |
| Policy/Regulation Inquiries | Information Call Center | 800/532-2832 or 919/834-2893 |
| Student Status Verification | Repayment Services | 800/532-2832 or 919/834-2893 |
| Borrower Inquiries: | | |
| Prior to Repayment | Information Call Center | 866/866-2362 or 919/834-2893 |
| Repayment | Collection Services | 866/866-2362 or 919/834-2893 |

### For Default Aversion Assistance and 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

| | | |
|---|---|---|
| Default Aversion Assistance | Claims Processing and Default Aversion | 800/700-1775 ext. 4623 |

## After Default

| Question Regarding | Contact/Division | Telephone Number |
|---|---|---|
| Compliance School Questions | Administrative Services | 919/248-4637 |
| Loans in Default | Default Recovery | 800/544-1644 |
| Accounts in Litigation | Legal Affairs | 800/544-1644 |
| NSLDS | Administration | 919/248-4646 |
| Lender Relations | Administration | 919/248-4646 |
| Ombudsman | Ombudsman | 919/248-4672 |

This page intentionally left blank.

## Northwest Education Loan Association

**See United Student Aid Funds, Inc. (USA Funds) Contact page**

This page intentionally left blank.

# Oklahoma State Regents for Higher Education
# Oklahoma College Assistance Program

***www.ocap.org***

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

**Street Address:**
421 NW 13th Street, Suite 250
Oklahoma City, OK 73103-3710

Telephone Number: (405) 234-4300
1-800-247-0420
Fax Number: (405) 234-4390
TDD Number: 1-800-522-8506

| Question Regarding | Contact/Division | Telephone Number |
|---|---|---|
| Administrative Wage Garnishment | Recoveries | 1-800-777-3394 |
| Bankruptcy | Claims Review | 1-800-247-0420 ext. 4332 |
| Claim Processing | Claims Review | 1-800-247-0420 ext. 4332 |
| Cohort Default Rates | Default Prevention | 1-800-358-5460 ext. 4358 / wsparks@ocap.org |
| Cohort Default Rate Challenges | Policy, Compliance, & Training | 1-800-247-0420 ext. 4296 / mmccreary@ocap.org |
| Compliance | Policy, Compliance, & Training | 1-800-247-0420 ext. 4432 |
| Customer Service - Schools | Outreach Services | 1-800-247-0420 ext. 4329 |
| Customer Service - Students | Default Prevention | 1-800-358-5460 |
| Death and Disability | Policy, Compliance, & Training | 1-800-247-0420 ext. 4281 |
| Default Prevention Training - Schools | Early Assistance | 1-800-358-5460 |
| Deferments and Forbearance | Default Prevention | 1-800-358-5460 |
| Defaulted Loans | Recoveries | 1-800-522-8022 |
| Early Assistance | Early Assistance | 1-800-358-5460 |
| False Certification | Policy, Compliance, & Training | 1-800-247-0420 ext. 4487 |
| Fee Billing | Accounting | 1-800-247-0420 ext. 4516 |
| Forms, Supplies, & Publications | Communications | 1-800-247-0420 ext. 4452 |
| IRS Offset | Recoveries | 1-800-522-8022 |
| Legal Counsel | Legal Counsel, OSRHE | 405-225-9115 |
| Legal Account Litigation & Bankruptcy | Legal | 1-800-247-0423 |
| Lender/School Training | Policy, Compliance, & Training | 1-800-247-0420 ext. 4288 |
| Loan Consolidation | Default Prevention | 1-800-358-5460 |
| NSLDS | Default Prevention | 1-800-358-5460 ext. 4352 scossom@ocap.org |
| Ombudsman | Policy, Compliance, & Training | 1-800-247-0420 ext. 4487 |
| Policy/Regulatory Questions | Policy, Compliance, & Training | 1-800-247-0420 ext. 4432 |
| Potential Fraud | Policy, Compliance, & Training | 1-800-247-0420 ext. 4487 |

(Continued on next page)

# Oklahoma State Regents for Higher Education
# Oklahoma College Assistance Program

| Question Regarding | Contact/Division | Telephone Number |
|---|---|---|
| Pre-Claims Information | Default Prevention | 1-800-358-5460 |
| Products and Services | Outreach Services | 1-800-247-0420 ext. 4329 |
| Program Reviews – Lenders | Policy, Compliance, & Training | 1-800-247-0420 ext. 4296 |
| Program Reviews – Schools | Policy, Compliance, & Training | 1-800-247-0420 ext. 4487 |
| Rehabilitation | Recoveries | 1-800-522-8022 |
| Repayment Information | Early Assistance | 1-800-358-5460 |
| Repurchase | Accounting | 1-800-247-0420 ext. 4318 |
| School Closure | Policy, Compliance, & Training | 1-800-247-0420 ext. 4487 |
| Teacher Loan Forgiveness | Policy, Compliance, & Training | 1-800-247-0420 ext. 4281 |
| Unpaid Refund | Policy, Compliance, & Training | 1-800-247-0420 ext. 4487 |

## Rhode Island Higher Education Assistance Authority (RIHEAA)

560 Jefferson Boulevard
Warwick, RI 02886
(401) 736-1100
FAX (401) 737-1125

| Questions Regarding | Contact Name/Division | Phone |
|---|---|---|
| Appeals | Christina Faulkner | 401-736-1151 |
| Applications Processing | Account Resolution Dept. | 401-736-1120 |
| Claims | Tom Pearce | 401-736-1124 |
| Deferments | Account Resolution Dept. | 401-736-1120 |
| Forbearance | Account Resolution Dept. | 401-736-1120 |
| Disbursement Information | Account Resolution Dept. | 401-736-1120 |
| Guarantee Status | Account Resolution Dept. | 401-736-1120 |
| Late Disbursement | Tom Pearce | 401-736-1124 |
| Late Guarantee | Account Resolution Dept. | 401-736-1120 |
| Lender/School Reviews | Christina Faulkner | 401-736-1151 |
| Lender/School Training | Gregory Silva | 401-736-1169 |
| Loan Consolidation | Account Resolution Dept. | 401-736-1120 |
| Loan Denials | Account Resolution Dept. | 401-736-1120 |
| Loan Updates/Changes | Tom Pearce | 401-736-1124 |
| Ombudsman | Clordine Cox | 401-736-1130 |
| PLUS/SLS Refinance Loans | Account Resolution Dept. | 401-736-1120 |
| Partial Payments/Cancellations | Clordine Cox | 401-736-1130 |
| Payment Arrangements/Defaults | Clordine Cox | 401-736-1130 |
| Policy Questions | Clordine Cox | 401-736-1130 |
| Regulatory Interpretation | Clordine Cox | 401-736-1130 |
| Repayment Information | Account Resolution Dept. | 401-736-1120 |
| Student Status Verification | Account Resolution Dept. | 401-736-1120 |

This page intentionally left blank.

## 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 | (800) 347-2752 |
| Repayment Information | (800) 347-2752 |
| Defaulted Loans | (800) 347-2752 |
| All other areas | (803) 798-0916 |

This page intentionally left blank.

## Student Loan Guarantee Foundation of Arkansas (SLGFA)

10 Turtle Creek
Little Rock, Arkansas 72202-1884
Telephone Number: (800) 622-3446
(501) 372-1491
Fax Number: (501) 688-7675
**www.slgfa.org**

| Question Regarding | Contact/Division | Telephone Number* |
|---|---|---|
| Bankruptcy Repurchase/Status | Default Reporting Department | ext. 639 |
| Brochures & Publications | Training & Technical Assistance Department | ext. 629 |
| Claims Aversion | Claim Management Department | ext. 680 |
| Claims Processing | Claim Management Department | ext. 641 |
| Closed School | Claim Management Department | ext. 641 |
| Cohort Rate Appeals | Training & Technical Assistance Department | ext. 661 |
| Compliance & Regulatory Training | Training & Technical Assistance Department | ext. 636 |
| Contracts & Agreements | Training & Technical Assistance Department | ext. 629 |
| Corporate Communications | Training & Technical Assistance Department | ext. 629 |
| DAAR Submissions, Updates/Resolutions | Operations & Records Department | ext. 665 |
| Default Collections | Default Reporting Department | ext. 639 |
| Default Fee Billing | Operations Division | ext. 661 |
| Default Prevention Assistance | Default Prevention Department | ext. 690 |
| Default Repurchases | Default Reporting Department | ext. 639 |
| IRS Offset | Default Reporting Department | ext. 639 |
| Legislative Information | Policy & Compliance Division | ext. 638 |
| Loan Adjustments | Operations & Records Department | ext. 665 |
| Loan Rehabilitation | Default Reporting Department | ext. 639 |
| Loan Updates/Changes | Operations & Records Department | ext. 665 |
| NSLDS Reporting | Operations Division | ext. 661 |
| Products and Services | Training & Technical Assistance Department | ext. 636 |
| Program Review/Compliance | Training & Technical Assistance Department | ext. 636 |
| Wage Garnishment | Default Reporting Department | ext. 639 |

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

This page intentionally left blank.

## 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

Website: **starthere4loans.nd.gov**

| Question Regarding | Telephone Number |
|---|---|
| Administration | 701-328-5654 |
| Program Reviews / Ombudsman | 701-328-5753 |
| Claims / NSLDS | 701-328-5669 |
| Customer Assistance | 701-328-5754 |
| Default Prevention and Resolution<br>Default Aversion<br>Wage Garnishments<br>Bankruptcy<br>Skip Tracing<br>Loan Rehabilitation | 701-328-5707 |

This page intentionally left blank.

## Tennessee Student Assistance Corporation

1950 Parkway Towers
404 James Robertson Parkway
Nashville, TN 37243-0820
Telephone Number (615) 741-1346
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 |
| Foreign School Applications | TSAC Loan Division | (615) 741-1346 |
| Guarantee Status | GuaranTec, LLP | (800) 257-6528 |
| Late Disbursement | TSAC Loan Division | (615) 741-1346 |
| Lender/School Reviews | TSAC Compliance Division | (615) 532-3499 |
| Loan Consolidation | GuaranTec, LLP | (800) 257-6528 |
| Ordering Supplies | GuaranTec, LLP | (904) 281-7027 |
| Payment Arrangements/Defaulted Loans | GuaranTec, LLP | (800) 257-6528 |
| Refunds/Cancellations | GuaranTec, LLP | (800) 257-6528 |
| Regulatory/Policy Questions | TSAC Compliance Division | (615) 532-3499 |
| Status Changes | GuaranTec, LLP | (800) 257-6528 |

This page intentionally left blank.

# TG

**www.tgslc.org**

U.S. Mail:
P.O. Box 83100
Round Rock, TX 78683-3100

Overnight Mail:
3500 Wadley Place, Bldg. C, Ste. 303
Austin, Texas 78728-1244

Visitors:
301 Sundance Parkway
Round Rock, TX 78681

Telephone Number: Direct (512) 219-5700; Toll Free (800) 252-9743
E-mail: relationship.management@tgslc.org; TG Staff firstname.lastname@tgslc.org
Fax Number: (512) 219-4989

| Question Regarding | Contact / Division | Telephone Number / E-mail | Fax Number |
|---|---|---|---|
| *Adventures In Education* (AIE.org) | Communications | (800) 252-9743, ext. 4732; communications@tgslc.org | (512) 219-4850 |
| Annual Report | Communications | (800) 252-9743, ext. 4732; communications@tgslc.org | (512) 219-4850 |
| Bankruptcy | Collections | (800) 222-6297; collections@tgslc.org | (512) 219-4741 |
| Borrower Support | Customer Assistance | (800) 845-6267; cust.assist@tgslc.org | |
| CAM | | | |
| Claims | Claims | (800) 252-9743, ext. 4791 | (512) 219-4514 |
| Consolidation Loan Reporting | Data Reporting | good.data@tgslc.org | (512) 336-4777 |
| DAARs | Default Prevention | (800) 252-9743, ext. 4706; tgcares@tgslc.org | (512) 336-6581 |
| Cancellations | Data Reporting | good.data@tgslc.org | (512) 336-4777 |
| Claims | Claims | (800) 252-9743, ext. 4779 | (512) 219-4514 |
| Closed School Discharge | Customer Assistance | (800) 845-6267; cust.assist@tgslc.org | (512) 219-4633 |
| Cohort Default Information / Rate Appeals | Compliance Administrative Operations | (800) 252-9743, ext. 4572 | (512) 219-4619 |
| Collections | Collections | (800) 222-6297; collections@tgslc.org | (512) 219-4739<br>(512) 219-2923 |
| Community Colleges - Financial Aid Policy | Center for Financial Aid Policy and Practices in Community Colleges | (800) 252-9743, ext. 6780 | (512) 336-6652 |
| Cures / Rejects / Recalls | Claims | (800) 252-9743, ext. 4771 | (512) 219-4514 |
| Status Inquiries | Customer Assistance | (800) 845-6267; cust.assist@tgslc.org | (512) 219-4633 |
| Default Aversion Assistance | Default Prevention | (800) 338-4752; tgcares@tgslc.org | (512) 219-4630 |
| Deferments / Forbearances | Customer Assistance | (800) 845-6267; cust.assist@tgslc.org | (512) 219-4633 |
| Demographic Updates | Data Reporting | good.data@tgslc.org | (512) 336-4777 |
| Enrollment Management Services | Student and Institutional Success | (800) 252-9743, ext. 4914 | (512) 219-4989 |
| False Certification | Compliance Administrative Operations | (800) 252-9743, ext. 4775 | (512) 219-4619 |
| Financial Literacy Programs | Student and Institutional Success | (800) 252-9743, ext. 6781 | (512) 219-4989 |
| Forms / Publications | Communications | (800) 252-9743, ext. 4546; communications@tgslc.org | (512) 219-4850 |
| Interest Rates | Customer Assistance | (800) 845-6267; cust.assist@tgslc.org | (512) 219-4633 |
| Internal Audit | Internal Audit | (800) 252-9743, ext. 4755 | (512) 219-2849 |
| FFELP Investigations / Potential Fraud (FFELP) | Compliance Administrative Operations | (800) 252-9743, ext. 4782 | (512) 219-4619 |
| Legislative/Congressional Relations | Congressional/Legislative Liaison | (800) 252-9743, ext. 4503; george.torres@tgslc.org | (512) 219-4989 |
| Lender Manifest | Data Reporting | good.data@tgslc.org | (512) 336-4777 |
| Lender Support (non-technical) | Customer Assistance | (800) 845-6267; cust.assist@tgslc.org | (512) 219-4633 |
| Loan Disbursement Reporting | Data Reporting | good.data@tgslc.org | (512) 336-4777 |
| Lottery Garnishment | Collections | (800) 222-6297; collections@tgslc.org | (512) 219-2929 |

*Continued on Next Page…*

# TG

| Question Regarding | Contact / Division | Telephone Number / E-mail | Fax Number |
|---|---|---|---|
| Media and Public Information | Communications | (800) 252-9743, ext. 4990; communications@tgslc.org | (512) 219-4850 |
| National Student Loan Data System<br>Lender Manifest<br>Electronic Enrollment Reporting | Data Reporting | (800) 801-8416; good.data@tgslc.org | (512) 219-4641 |
| Newsletters/Blog-*Shoptalk* | Communications | (800) 252-9743, ext. 4732; communications@tgslc.org | (512) 219-4850 |
| Ombudsman | Office of the President | (800) 252-9743, ext. 4502 | (512) 219-4603 |
| Participation Agreements | Compliance Administrative Operations | (800) 252-9743, ext. 4572 | (512) 219-4619 |
| Professional Licensing Renewals | Collections | (800) 222-6297; collections@tgslc.org | (512) 219-4741 |
| Program Reviews / Audits | Program Review | (800) 252-9743, ext. 4774 | (512) 219-2849 |
| Public Benefit Programs | Student and Institutional Success | (800) 252-9743, ext. 4518 | (512) 219-4989 |
| Rehabilitations | Collections | (800) 222-6297; collections@tgslc.org | (512) 219-4781 |
| Reinstated Eligibility | Collections | (800) 222-6297; collections@tgslc.org | (512) 219-4781 |
| Repurchases | Collections | (800) 222-6297; collections@tgslc.org | (512) 219-2929 |
| Research and Statistical Reports | Research and Analytical Services | (800) 252-9743, ext. 4504 | (512) 219-4932 |
| School Support (non-technical) | Customer Assistance | (800) 845-6267; cust.assist@tgslc.org | (512) 219-4633 |
| Special Allowance Rates | Customer Assistance | (800) 845-6267; cust.assist@tgslc.org | (512) 219-4633 |
| *TG Online* (www.tgslc.org) | Communications | (800) 252-9743, ext. 4732; communications@tgslc.org | (512) 219-4850 |
| Teacher Loan Forgiveness | Customer Assistance | (800) 845-6267; cust.assist@tgslc.org | (512) 219-4633 |
| Technical Support | Business Support and Integration | (800) 332-1455; product.support@tgslc.org | (512) 219-4641 |
| Texas Awareness Initiatives<br>Events / Product Orders | Student and Institutional Success | (800) 252-9743, ext. 4784 | (512) 219-4989 |
| Training - Products | Product Training | (800) 252-9743, ext. 4758 | (512) 219-4525 |
| Treasury Offset | Collections | (800) 222-6297; collections@tgslc.org | (512) 219-4741 |
| Unpaid Refunds | Compliance Administrative Operations | (800) 252-9743, ext. 4775 | (512) 219-4619 |
| Wage Garnishment | Collections | (800) 222-6297; collections@tgslc.org | (512) 219-4829 |
| Web Sites | Communications | (800) 252-9743, ext. 4732; communications@tgslc.org | (512) 219-4850 |

# United Student Aid Funds, Inc.
# (USA Funds)

**www.usafunds.org**

***Mailing Address***
P. O. Box 6028
Indianapolis, IN 46206-6028

***Location***
9998 Crosspoint Plaza Blvd
Suite 400
Indianapolis, IN 46256-3307

**USA Funds:**

| Topic | Contact | Phone Number/E-Mail | Fax Number |
|---|---|---|---|
| General Assistance | General Assistance | 800-766-0084 | |
| Compliance Operations | Compliance Issues<br>Program Reviews<br>Cohort Default Rates<br>Unpaid Refund | 317-806-1251 | 317-806-0151 |
| Investigations | Fraud and abuse<br>False Certification | 866-329-7673 | 317-806-0151 |
| Loan Policy | Internet Inquiries<br>Policy Inquiries<br>Regulatory Inquiries<br>*Common Manual* Inquiries | askpolicy@usafunds.org<br>317-806-1251 | <br>317-806-0151 |
| Ombudsman | Official Inquiries | 317-806-1265 | 317-806-0151 |
| Claim Management | Claims<br>Cures, Rejects & Recalls<br>Closed School Discharge<br>Teacher Loan Forgiveness | 800-766-0084 Ext. 6937 | 317-578-6289 |

**Guarantor Servicer; Sallie Mae (www.salliemae.com):**

***Indiana***
*Mailing:* P.O. Box 6180
Indianapolis, IN 46206-6180

*Location:* 11100 USA Parkway
Fishers, IN 46037-9203

***Pennsylvania***
*Mailing:* P.O. Box 9500
Wilkes Barre, PA 18773-9500

*Location:* 220 Lasley Ave.
Wilkes Barre, PA 18706

**www.salliemae.com**

| | | | |
|---|---|---|---|
| | Account Information<br>Online News<br>Interactive Calculators | | |
| Customer Assistance | General Information<br>Status of Applications<br>Loan Status Updates | 888-272-4665 School/Lender<br>888-272-5543 Borrower | 800-468-7789 |

## United Student Aid Funds, Inc. (USA Funds) (continued)

| Topic | Contact | Phone Number/E-Mail | Fax Number |
|---|---|---|---|
| Default Prevention | Delinquent Accounts<br>Default Aversion | 800-635-3786<br>800-635-3783 (Spanish) | 800-220-2008 |
| Electronic Services | CommonLine Support | 800-348-4606 | 317-578-6829 |
| Default Fee Operations | System Information<br>Operational Information | 800-428-9250 Ext. 88638 | 317-594-1041 |
| Marketing | Products & Services | 800-766-0084 | |
| School/Borrower Post-Claim Support | Post Claim Assistance | 800-331-2314 | 317-595-1265 |
| USA Funds University | School and Lender Training | 800-766-0084 | |

## Utah Higher Education Assistance Authority (UHEAA)

Board of Regents Building, The Gateway
60 South 400 West
Salt Lake City, UT 84101-1284

Mailing address:
P.O. Box 45202
Salt Lake City, UT 84145-0202

Telephone Number: (800) 418-8757 or (801) 321-7200
Fax Number: (801) 321-7299

Website: **www.uheaa.org**
E-mail: uheaa@utahsbr.edu

| Function | Telephone Number |
|---|---|
| Accounting and Finance Branch | (801) 321-7286 |
| Borrower Services Group | (801) 321-7294 |
| Claims Review Group | (801) 321-7225 |
| Compliance and Program Review Team | (801) 321-7177 |
| Loan Management Services Group (Default Prevention) | (801) 321-7246 |
| Loan Purchase Program Oversight and Coordination Branch | (801) 321-7295 |
| Account Services Group | (801) 321-7236 |
| Policy and Development Division | (801) 321-7166 |
| Postclaim Services Group | (801) 321-7272 |

This page intentionally left blank.

# Vermont Student Assistance Corporation (VSAC)

10 East Allen Street
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 (1-800-642-3177)

| | Contact | Phone/Ext/Internet | |
|---|---|---|---|
| School Services | School Services Phone Group | 1-888-307-8722 | |
| | Jason Stuart Walt | Ext. 375 | waltj@vsac.org |
| Compliance | Jaye O'Connell | Ext. 388 | oconnell@vsac.org |
| Borrower Services | Loan Customer Service Counselors | 1-800-798-VSAC (1-800-798-8722) | |
| | | | Info@vsac.org |

### DEFAULT AVERSION AND COLLECTIONS (1-800-642-3177)

| | Contact | Phone/Ext/Internet | |
|---|---|---|---|
| Program Policies and Issues | Joe Gallagher | Ext. 715 | gallagher@vsac.org |
| Specialized Programs for Defaulted Borrowers *(Loan rehabilitation, Loan consolidation, Renewed Title IV Eligibility)* | Rose Bean | Ext. 278 | bean@vsac.org |
| Default Aversion Issues | Christine Quinn-Kuck | Ext. 211 | kuck@vsac.org |

### GRANTS (1-800-882-4166)

| | Contact | Phone/Ext/Internet | |
|---|---|---|---|
| Policies and Operations | Marcia Corey | Ext. 206 | corey@vsac.org |

### SCHOLARSHIPS (1-888-253-4819)

| | Contact | Phone/Ext/Internet | |
|---|---|---|---|
| Operations, Policies & Procedures | Marjorie RW Lemay | Ext. 243 | lemay@vsac.org |

### OUTREACH SERVICES (1-800-642-3177)

| | Contact | Phone/Ext/Internet | |
|---|---|---|---|
| Policies and Programs | Linda Shiller | Ext. 234 | shiller@vsac.org |

This page intentionally left blank.

# 2 About the FFELP


| | | |
|---|---|---|
| 2.1 | The Federal Family Education Loan Program (FFELP) | 1 |
| 2.1.A | Overview | 1 |
| 2.1.B | Types of Loans Available | 1 |
| 2.2 | The Life of a FFELP Loan | 2 |
| 2.2.A | Origination | 6 |
| 2.2.B | The Interim Period | 8 |
| 2.2.C | Repayment | 9 |
| 2.3 | Other FFELP Resources | 11 |
| 2.3.A | Federal Statute, Regulations, and Dear Colleague Letters/Dear Partner Letters | 11 |
| 2.3.B | U.S. Department of Education Publications | 12 |
| 2.3.C | Common Forms | 13 |

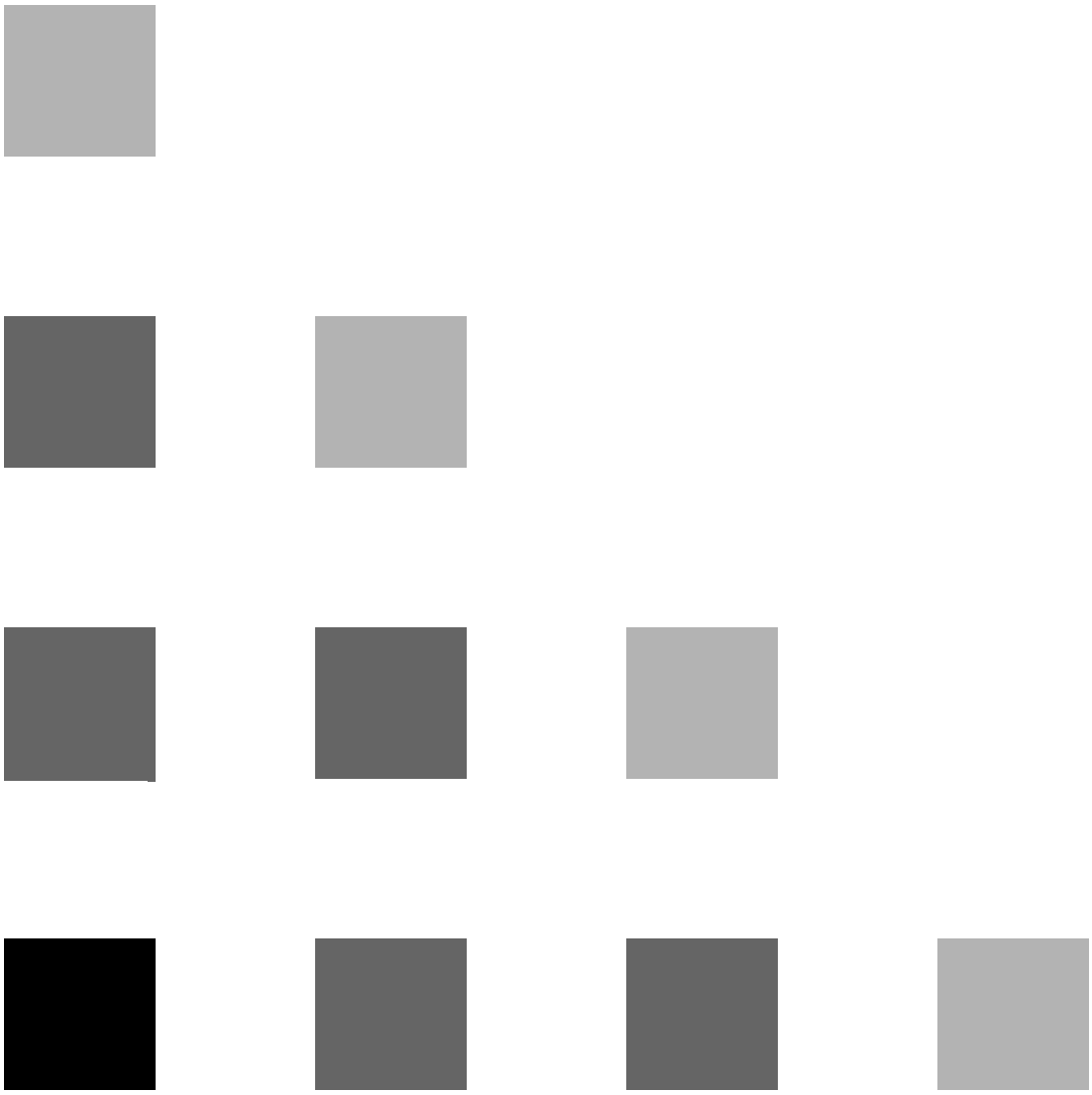
This page intentionally left blank.

# Tab Locator Page

## Remove this page and replace with tab divider.

# Tab Locator Page

## Remove this page and replace with tab divider.



# 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.

Guarantors are reinsured under a common participation agreement with the U.S. Department of Education (the Department). However, the Department is authorized to enter into individual agreements, called Voluntary Flexible Agreements (VFAs), with selected guarantors. VFAs include waivers of certain regulations and may create unique servicing requirements for schools, lenders, and guarantors. Guarantors participating under VFAs will work with their school and lender partners to address the special requirements for servicing loans under their guarantee. [HEA §427(a)(2)(A); HEA §428(b) and (c); HEA §428A]

Some guarantors have entered into VFAs. Contact your guarantor for more information.

## 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 a Stafford loan is scheduled over a maximum period of 10 years. However, the repayment period may be longer than 10 years under an income-based repayment plan. For a borrower eligible for an extended repayment schedule, the maximum repayment period is 25 years. (See Section 10.8).

- 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 of a dependent undergraduate student attending a participating postsecondary school and to an eligible graduate or professional student enrolled in an eligible graduate or professional program at a participating school. A PLUS loan borrower must not have adverse credit or must obtain an endorser without adverse credit to be eligible for the loan. The borrower 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 a PLUS loan is scheduled over a maximum period of 10 years. However, the repayment period on a Grad PLUS loan may be longer than 10 years under an income-based repayment plan. For a borrower eligible for an extended repayment schedule, the maximum repayment period is 25 years. (See Section 10.8).

- 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 request for a loan and the school's certification of the borrower's eligibility. It ends when the loan is paid in full—or when the outstanding loan amount is fully discharged or forgiven. 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.

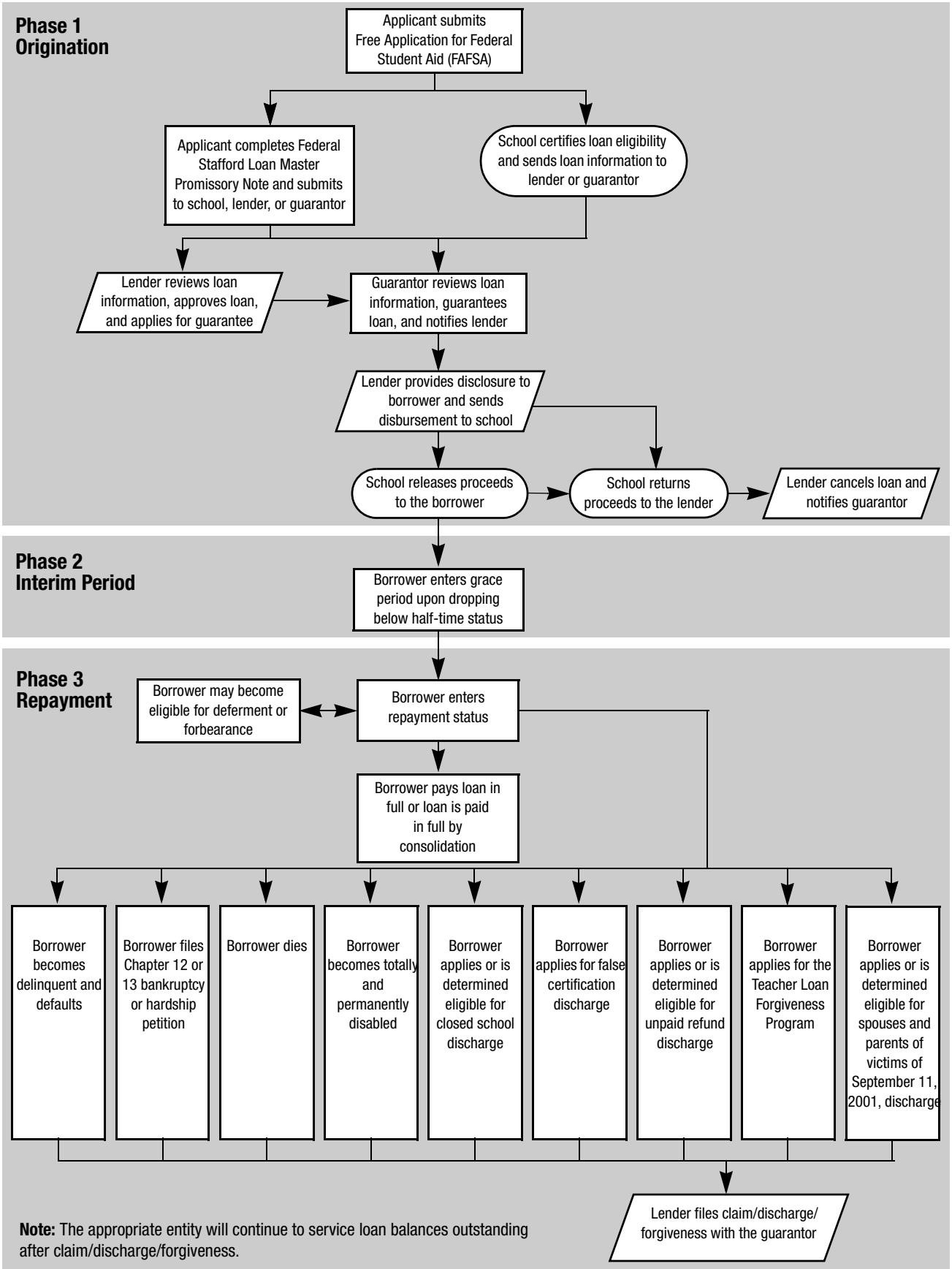
**Phase 3: Repayment**
The lender maintains, or services, the loan from the time the borrower is to begin making payments on the loan until the loan is paid in full by the borrower, paid in full by consolidation, paid by the guarantor as a claim, or fully discharged or forgiven.

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

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

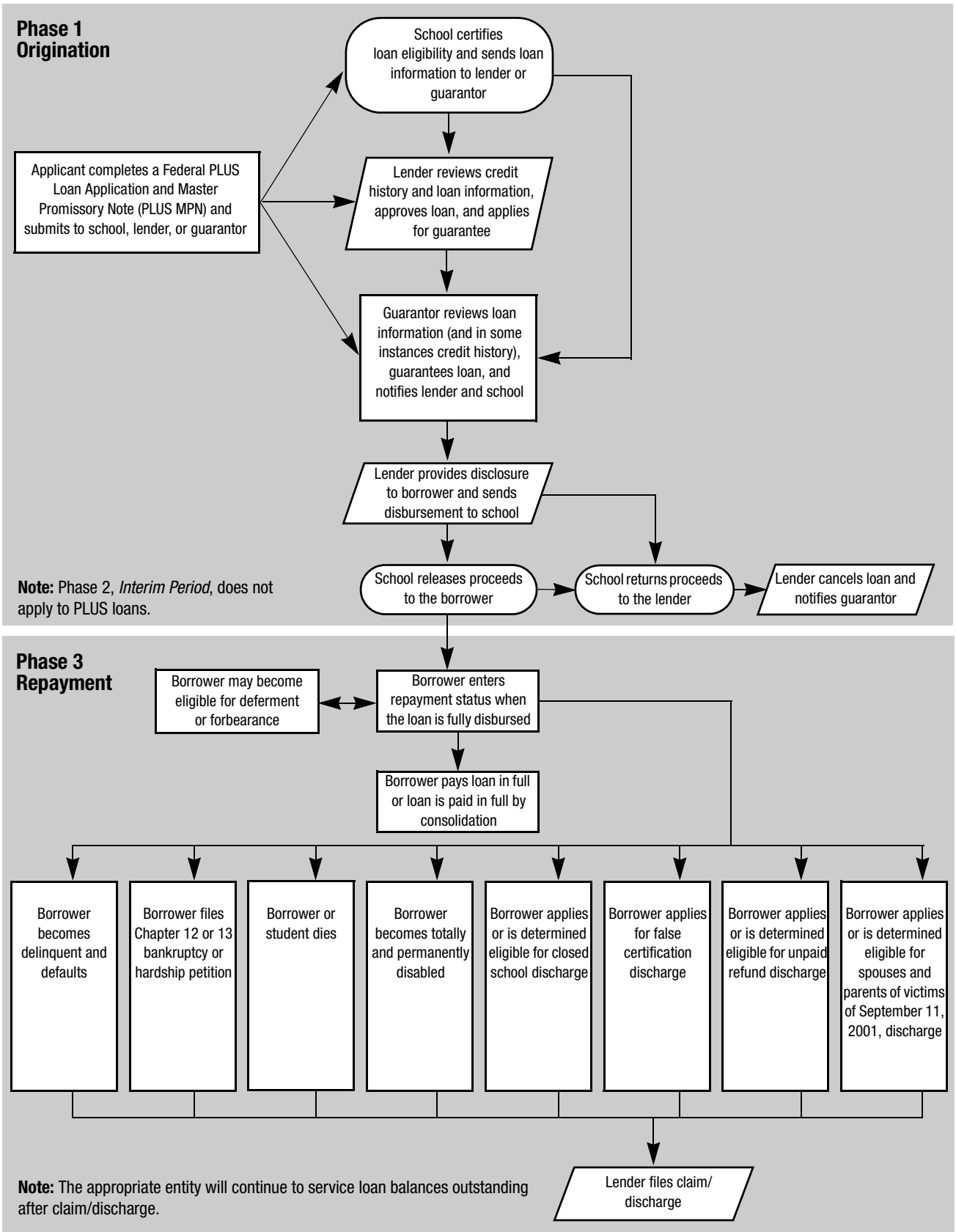
## The Life of a Stafford Loan

**Figure 2-1**



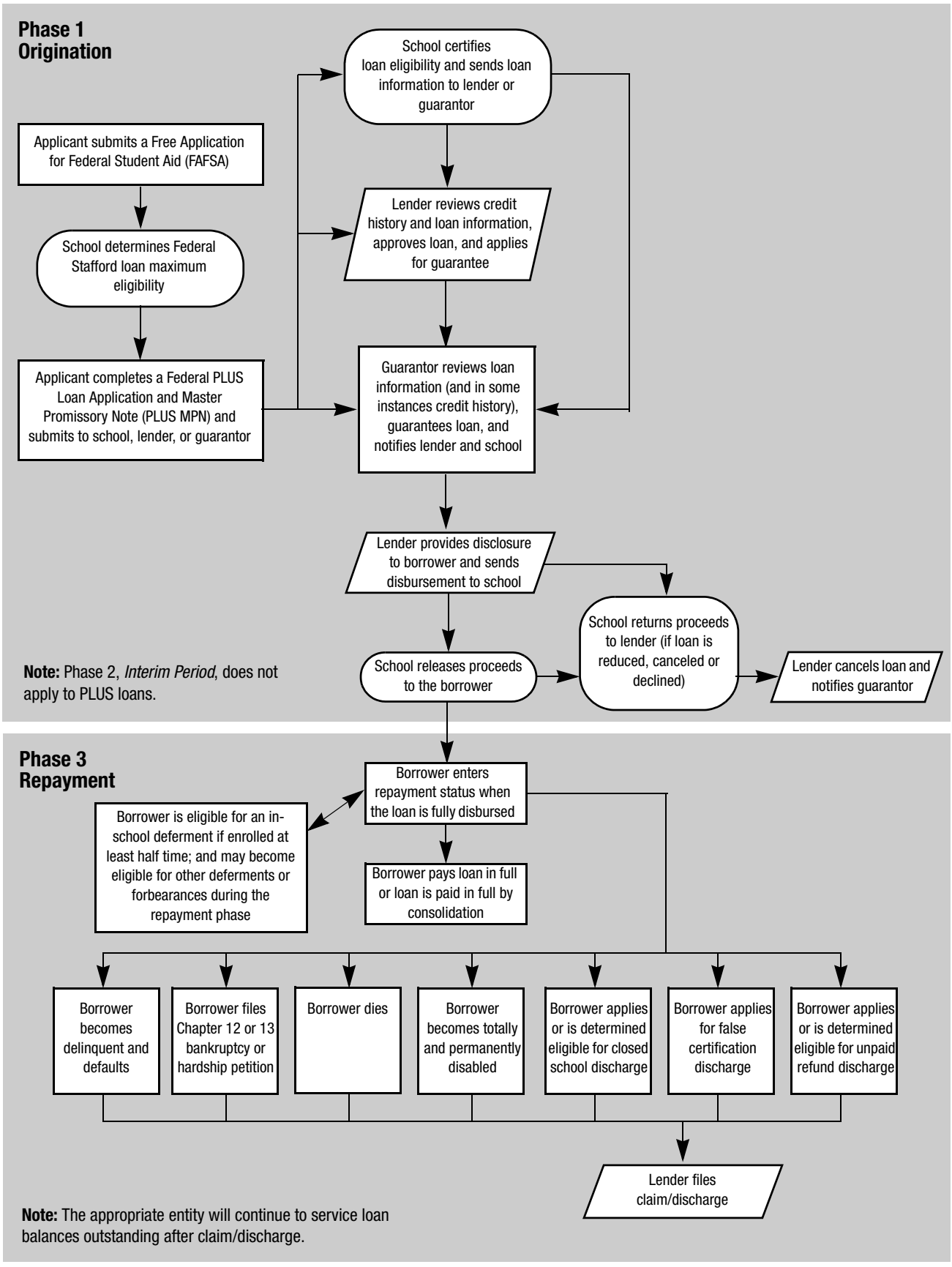
## The Life of a Parent PLUS Loan

**Figure 2-2**



## The Life of a Grad PLUS Loan

**Figure 2-3**



# 2.2.A Origination

Schools, lenders, and guarantors collaborate to establish the most efficient processes to originate both Stafford and PLUS loans using the most up-to-date technologies and tools to expedite the loan process and deliver loan funds promptly to student and parent borrowers. These processes vary depending on electronic services and other arrangements among these parties. Current application and promissory note processes are:

- The Federal Stafford Loan Master Promissory Note (Stafford MPN) is the student borrower's promise to repay the funds and provides important language about the student borrower's rights and responsibilities with respect to obtaining and repaying the loan. Because the Stafford MPN is only a promissory note, the borrower application and school certification processes are separate. To obtain a Stafford loan, the student must submit a completed Free Application for Federal Student Aid (FAFSA). Before a Stafford loan is disbursed under the multi-year feature of the MPN, the school or the lender must complete either the notification or the confirmation process described in Subsection 8.2.B.
  [DCL GEN-02-10]

- The Federal PLUS Loan Application and Master Promissory Note (PLUS MPN) is a single form used concurrently as a borrower's application for the loan and the borrower's promise to repay the funds. A parent borrower must complete a separate PLUS MPN for each dependent student for whom he or she wishes to borrow. Before each PLUS loan is disbursed, the borrower must indicate the amount he or she wishes to borrow (the requested loan amount). The requested loan amount may be obtained by either the school or the lender depending on the process agreed to by the parties. The school certification and the process for obtaining the borrower's requested loan amount may be separate processes.
  [DCL GEN-03-03; DCL FP-06-05]

Both the Stafford MPN and the PLUS MPN have a multi-year feature that permits a borrower to sign one promissory note for multiple loans. All schools located in the United States, unless notified otherwise by the Department, may use the Stafford MPN and the PLUS MPN as multi-year notes. Schools located outside of the United States, unless specifically authorized by the Department to offer the multi-year feature, must use a separate Stafford MPN and PLUS MPN for each academic year.

There are instances, however, when the borrower may have to complete a new MPN for each new academic year. (See Section 6.16 for more information about applying for Stafford and PLUS loans and when a new MPN is required. See Subsection 7.2.B for information regarding transfer students and MPNs).

The lender must verify that each loan is supported by a signed MPN and that the lender's ability to make subsequent loans has not expired or been revoked (see Section 7.2).

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

For a Grad PLUS loan, the school certifies the preceding information and the student'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 a loan, see Chapters 5 and 6.

### 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 has adverse credit 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 7.

### 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 7.

### 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 8.

# 2.2.B
# The Interim Period

### In-School and Grace Periods

Each student who borrows a Stafford loan is entitled to an "interim period." This period includes the time when the student is in school and the grace period before the student 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 student.

The in-school period is the period during which the student is enrolled at least half time in school. During this period, the school—in addition to providing the education or training that the student 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 student to enter repayment on his or her Stafford loan.

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 10.

### 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 student, then promptly send the refund to the lender of the Stafford or PLUS loan, as applicable.

When the student leaves school or drops to less than half-time enrollment, the school must provide the student with exit counseling information. 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 Chapter 4.

Occasionally, a student or parent borrower may repay some or all of his or her loan early. The lender treats any funds it receives before repayment is scheduled to begin as a prepayment and generally applies them to the principal balance of the student or parent borrower's loan.

For more information on prepayments, see Chapter 10.

### 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 of the Stafford or PLUS loan, as applicable.

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 federal default fees (formerly guarantee fees) to the guarantor.
- Accruing, collecting, or capitalizing interest due on the loan.
- Monitoring changes in student enrollment status.
- Monitoring student and borrower demographic data.
- Reporting loan status information to the guarantor.
- Reporting loan information to a nationwide consumer reporting agency.
- 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, 7, and 10, 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 nationwide consumer reporting agency.
- 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 10.

### 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 are eligible to have the federal government pay the interest during a deferment period or post-deferment grace period. Certain Consolidation loan borrowers are eligible to have the federal government pay all or a portion of the interest that accrues during a deferment period. A borrower with an unsubsidized Stafford, PLUS, or SLS loan, or any unsubsidized portion of a Consolidation loan, is responsible for paying the interest due during a deferment period. During a forbearance period, all borrowers are responsible for paying the interest that accrues on any loan. If a borrower fails to make required interest payments during a deferment or forbearance period, the lender may capitalize the unpaid accrued interest.

For more information on deferment and forbearance, see Chapter 11. For information on interest subsidies, see Appendix A.

### 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 10.

### 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 or forgiven, generally the guarantor will pay the lender for its loss—provided that the lender has complied with the requirements for making, servicing, and collecting the loan, as applicable. The lender requests a claim, forgiveness, or discharge payment from the guarantor on the eligible amount of the loan. Some forgiveness programs do not involve the guarantor, but rather involve direct reimbursement from the Department to the lender. In the case of a claim payment due to default, the guarantor will continue attempting to collect the loan from the borrower. Permanently discharged and forgiven loans are not subject to further collection activities.

A lender may be eligible for claim, forgiveness, or discharge payment or reimbursement, as applicable, on the eligible amount 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 qualifies for spouses and parents of victims of September 11, 2001, discharge.
- The borrower files for debt collection protection under bankruptcy laws.
- The borrower or student does not receive the benefit of a refund to which he or she was entitled from either the school or a third party.
- The borrower qualifies for loan forgiveness.
- The school closes while the student is attending.
- The school falsely certifies the borrower's eligibility for the loan.
- The borrower qualifies for loan discharge due to the crime of identity theft.

In each of the preceding cases, the lender must file a claim, forgiveness, or discharge payment request within specified time frames to the guarantor or the Department, as applicable. The lender must provide all required documentation with the claim form or with the forgiveness or discharge application, as applicable. The required documentation must demonstrate that the lender or borrower is eligible for claim, forgiveness, or discharge payment or reimbursement of the loan obligation. See Sections 13.6, 13.8, and 13.9 for more information regarding submission time frames and requirements.

For more information on the lender's responsibilities when the borrower is unwilling or unable to make payments, see Chapters 12 and 13.

## 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/Dear Partner 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*/*Dear Partner 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, DC 20202
Phone (202) 512-1808

**Request:**
Volume III Higher Education
Compilation of Federal Education Laws

**Electronic Copy:**
Available for download at www.ifap.ed.gov

### Federal Student Aid Regulations

Title 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 federal student aid programs. Regulations are updated annually on July 1. Federal regulations may be ordered as follows:

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

**Request:**
34 CFR Part 400 to End

**Electronic Copy:**
Available for download at www.ifap.ed.gov

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)/*Dear Partner Letters* (DPLs)

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/DPL, a program participant may call the Department at (800) 4-FED-AID or may contact a guarantor. Electronic copies are available for download at www.ifap.ed.gov.

### Regulatory Waivers

Occasionally, the Secretary uses his or her authority under §432(a)(6) of the Higher Education Act of 1965, as amended, and §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 the Federal Student Aid Customer Service Call Center at (800) 433-7327. Some of these publications are also available for download on the Internet. See each publication below for its applicable Website. Additional Department publications are available from the Information for Financial Aid Professionals (IFAP) Website at www.ifap.ed.gov.

*Federal Student Aid Handbook*

This publication provides guidance to schools and lenders that offer federal student aid to students and borrowers. It is updated annually by the Department. The current and archived versions of the *Federal Student Aid Handbook* (FSA Handbook) are available for download from the IFAP Website at www.ifap.ed.gov.

*Application and Verification Guide*

This publication is a component of the FSA Handbook and is intended for financial aid administrators (FAAs) to help students begin the student aid process. It contains guidance on filing the Free Application for Federal Student Aid (FAFSA), verifying information, and making corrections and other changes to the information reported on the FAFSA. This publication is available as part of the latest version of the FSA Handbook, which is available for download from the IFAP Website at www.ifap.ed.gov.

*Cohort Default Rate Guide*

This publication is the primary resource used by the student loan community to enhance understanding and application of cohort default rate regulations and their associated processes. It includes the deadlines and processes for challenging a draft cohort default rate or for requesting an adjustment to or appealing official cohort default rate data. This guide combines the previous *Draft* and *Official Cohort Default Rate Guides* into one comprehensive publication. The *Cohort Default Rate Guide* is available for download from the IFAP Website at www.ifap.ed.gov.

*Expected Family Contribution Formula Worksheets and Tables*

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. The current and archived versions of the *Expected Family Contribution Worksheets and Tables* are available for download from the IFAP Website at www.ifap.ed.gov.

*Counselors and Mentors Handbook on Federal Student Aid*

This publication provides information to help high school counselors, TRIO and GEAR UP staff, and other mentors advise students about financial aid for postsecondary education. It is generally published annually. The current and archived versions of the *Counselors and Mentors Handbook on Federal Student Aid* are available for download from the IFAP Website at www.ifap.ed.gov.

*Audit Guide (School)*

This publication is provided to assist schools in preparing for required audits of their student loan programs. The latest version of the publication is available for download from the IFAP Website at www.ifap.ed.gov/iposguidance/attachments/PRGall.pdf.

*Audit Guide (Lender)*

This publication is updated periodically by the Department to assist lenders in preparing for required audits of their student loan programs. The latest version of the publication is available for download from the Department's Financial Partners Website at www.fp.ed.gov/fp/attachments/publications/LSRGuide326041.doc.

*LaRS External User Guide*

This publication is provided to assist lenders in reporting loan information and collecting interest benefits and special allowance payments on FFELP loans using the Lender's Interest and Special Allowance Request and Report (LaRS report). This document is available for download from the Department's Financial Partners Website at www.fp.ed.gov/PORTALSWebApp/fp/proj1.jsp.

*The Blue Book*

This publication provides guidance to those offices and individuals responsible for managing, keeping records of, accounting for, and reporting on the use of federal funds at schools that participate in the Title IV programs. The *Blue Book* is available for download from the IFAP Website at www.ifap.ed.gov.

# 2.3.C Common Forms

The 1992 Reauthorization of Title IV of the HEA required the Department, in cooperation with industry participants, to develop common loan applications and promissory notes, deferment forms, and reporting formats.

Common forms for the FFELP generally are developed through a collaborative effort led by the Program Operations Committee of the National Council of Higher Education Loan Programs (NCHELP) and, ultimately, the Department and the Office of Management and Budget (OMB).

NCHELP's Program Operations Forms subcommittee coordinates forms development, and various NCHELP Program Operations subcommittee workgroups to develop the forms and circulate them to the NCHELP membership and other industry entities that represent schools, lenders, and other financial aid constituencies for initial comment. After the forms are reviewed and approved, the forms are submitted to the Department for its consideration and approval.

The Department reviews the forms, looking especially at regulatory and legal compliance, risk, and overall consistency with the goals of the Title IV programs, and revises the forms, if needed.

The Department submits forms designed to collect information to the OMB for review and approval. This process includes publication of notices in the *Federal Register* (typically two) that make the forms available for public comment. The first comment period is for 60 days and the second is for 30 days. After the Department and the OMB receive and review the comments and make any adjustments, the OMB assigns a control number and an expiration date to the forms, and the Department announces approval to the community.

Approved common forms are reviewed at least every 3 years for updates and revisions. The revision process follows the same general flow as that used for new forms.

Default aversion and claim forms listed later in this subsection are developed and updated by NCHELP. The Department does not participate in the development or update of these forms, and thus the forms are not subject to OMB review or approval.

The following is a list of the common forms that are used in the FFELP. The most current forms may be found on the NCHELP Website (www.nchelp.org) as well as on many guarantor Websites.

### Loan Origination Forms

- Federal Stafford Loan Master Promissory Note
- Addendum to the Federal Stafford Loan Master Promissory Note
- Federal Stafford Loan Plain Language Disclosure
- Federal Stafford Loan School Certification
- Federal PLUS Loan Application and Master Promissory Note
- Addendum to the Federal PLUS Loan Application and Master Promissory Note
- Federal PLUS Loan Plain Language Disclosure
- Federal PLUS Loan Information and School Certification
- Endorser Addendum to Federal PLUS Loan Application and Master Promissory Note
- Federal Consolidation Loan Application and Promissory Note
- Addendum to the Federal Consolidation Loan Application and Promissory Note
- Federal Consolidation Loan Verification Certificate
- Request to Add Loans to a Federal Consolidation Loan (180-Day Add-On Provision)
- Additional Loan Listing Sheet for Federal Consolidation Loan Application and Promissory Note

### Return of Title IV Funds Worksheets

- Treatment of Title IV Funds When a Student Withdraws from a Credit-Hour Program
- Treatment of Title IV Funds When a Student Withdraws from a Clock-Hour Program
- Information Required When Referring Student Overpayments due to Withdrawal to Borrower Services—Collections

### Deferment Forms

- SCH In-School Deferment Request
- EDU Education Related Deferment Request
- PUB Public Service Deferment Request
- TDIS Temporary Total Disability Deferment Request
- UNEM Unemployment Deferment Request
- PLWM Parental Leave/Working Mother Deferment Request
- HRD Economic Hardship Deferment Request and Worksheets
- PLUS Parent PLUS Borrower Deferment Request
- MIL Military Service Deferment Request
  Post-Active Duty Student Deferment Request

### Default Aversion Forms

- Default Aversion Assistance Request Form

### Claim Forms

- Claim Form
- Supplemental Claim Form
- Request for Reimbursement Due to Partial Discharge of a Federal Consolidation Loan
- FFELP Teacher Loan Forgiveness Request Form
- FFELP Ineligible Borrower and Identity Theft Supplemental Form
- FFELP Assignment Support Supplemental Form (TPD-Specific worksheet)

### Loan Discharge/Forgiveness Forms

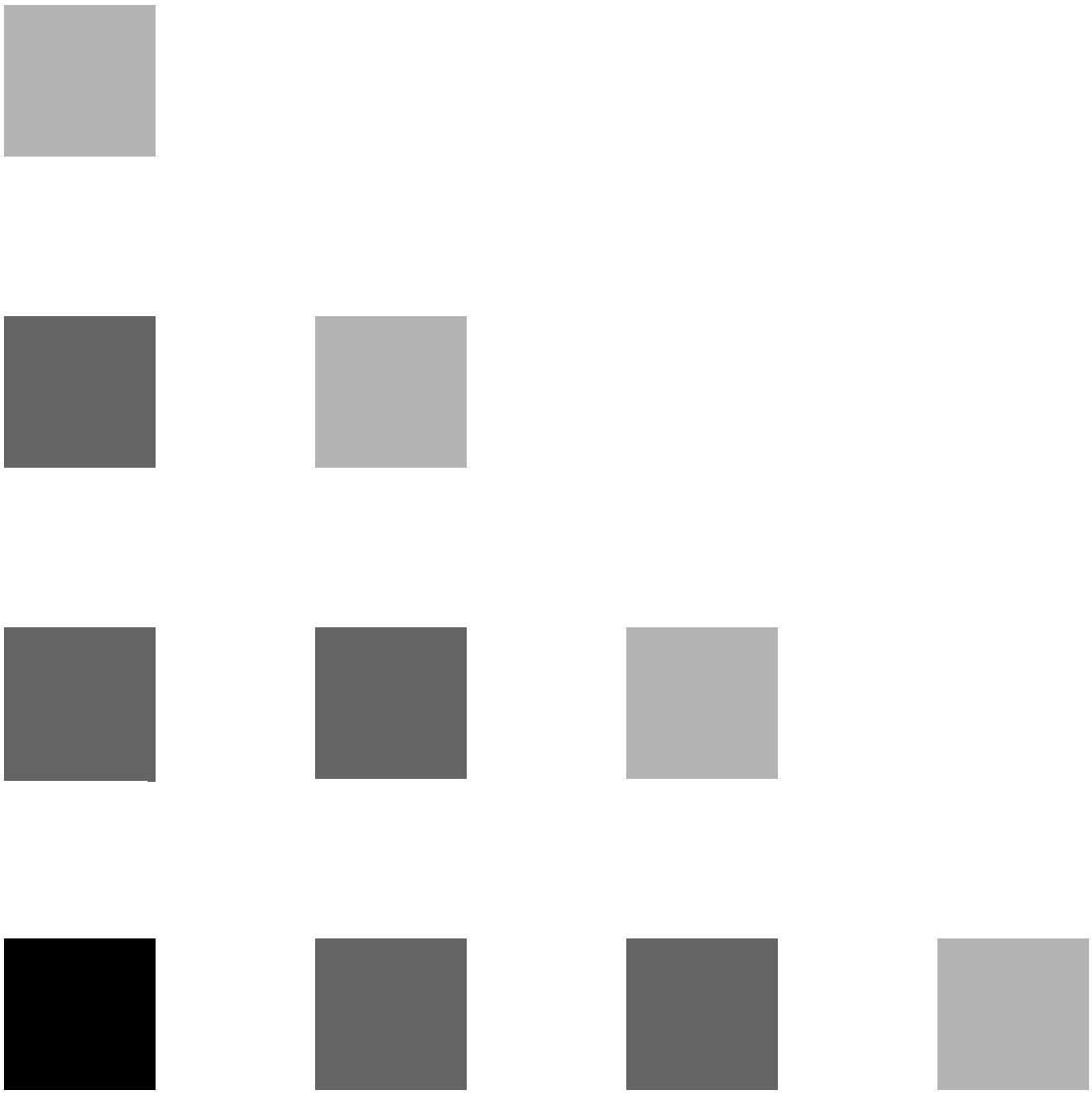
- Civil Legal Assistance Attorney Student Loan Repayment Program Application to Participate and Service Agreement
- Loan Discharge Application: School Closure
- Loan Discharge Application: False Certification of Ability to Benefit
- Loan Discharge Application: False Certification (Disqualifying Status)
- Loan Discharge Application: False Certification (Unauthorized Signature/Unauthorized Payment)
- Discharge Application: Total and Permanent Disability
- Loan Discharge Application: Unpaid Refund
- Loan Discharge Application: Spouses and Parents of September 11, 2001 Victims
- Teacher Loan Forgiveness Application
- Teacher Loan Forgiveness Forbearance Form

# Tab Locator Page

## Remove this page and replace with tab divider.

# Tab Locator Page

## Remove this page and replace with tab divider.



# 3 Lender Participation


| | | |
|---|---|---|
| 3.1 | Eligible Lenders | 1 |
| 3.2 | Schools Acting as Lenders and Eligible Lender Trustee Relationships | 2 |
| 3.3 | Participation and Guarantees | 4 |
| 3.3.A | Approval for Participation | 4 |
| 3.3.B | Agreement to Guarantee Loans | 4 |
| 3.3.C | Transfer of Loan Guarantee | 5 |
| 3.4 | Lender Responsibilities and Standards | 5 |
| 3.4.A | Recordkeeping Requirements | 6 |
| 3.4.B | Loan Assignment, Sale, or Transfer | 8 |
| 3.4.C | Permitted and Prohibited Activities | 9 |
| 3.4.D | Borrower Defenses | 12 |
| 3.4.E | Charges to Borrowers | 13 |
| 3.5 | Lender Reporting | 13 |
| 3.5.A | Federal Origination Fee and Lender Fee | 13 |
| 3.5.B | Interest Benefits and Special Allowance Reporting | 15 |
| 3.5.C | Reporting to Nationwide Consumer Reporting Agencies | 15 |
| 3.5.D | Reporting Loan Information | 16 |
| 3.5.E | Reporting Loan Assignments, Sales, and Transfers | 16 |
| 3.5.F | Reporting Social Security Number, Date of Birth, and First Name Changes or Corrections | 17 |
| 3.5.G | NSLDS Reporting | 18 |
| 3.5.H | Reporting Loans Paid in Full | 18 |
| 3.5.I | Reporting Information Relating to Preferred Lender Arrangements | 19 |
| 3.6 | Third-Party Servicers | 19 |
| 3.6.A | Administrative Capability | 20 |
| 3.6.B | Financial Responsibility | 20 |
| 3.7 | Lender of Last Resort | 22 |
| 3.7.A | Eligible Lenders | 22 |
| 3.7.B | Benefits of Participation | 22 |
| 3.7.C | How the LLR Program Works | 22 |
| 3.8 | Independent Audits | 23 |
| 3.8.A | Annual Compliance Audits | 23 |
| 3.8.B | Third-Party Servicer Audits | 24 |

This page intentionally left blank.

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 15.

## 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:
  [HEA §435(d)(1)(A); §682.200(b)]

  – 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.
  [HEA §435(d)(1)(A)(i); §682.200(b)]

  – 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). Loans held in trust by a trustee lender are not considered part of the trustee lender's consumer credit function. A lender is exempt from this requirement in any one of the four 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; 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.

    (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.

    (3) The lender is 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 Internal Revenue Code of 1986, and exempt from taxation under section 501(c)(1) of the Code], for purposes of making FFELP loans only to undergraduate students age 22 or younger, provided the bank's FFELP portfolio does not exceed $5 million.

    (4) The lender is a national or state chartered bank, or credit union, with assets of less than $1 billion.
    [HEA §435(d)(1)(A)(ii); §682.200(b)]

- A pension fund, as defined in the Employee Retirement Income Security Act.
  [HEA §435(d)(1)(B); §682.101(a); §682.200(b)]

- An insurance company that is subject to examination and supervision by an agency of the United States or a state.
  [HEA §435(d)(1)(C); §682.101(a); §682.200(b)]

- A single state agency or a single nonprofit private agency designated by the state.
  [HEA §435(d)(1)(D); §682.101(a); §682.200(b)]

- 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.
  [HEA §435(d)(1)(F) and (G); §682.200(b)]

- A Rural Rehabilitation Corporation that has received federal funds under P.L. 499-81.
  [HEA §435(d)(1)(I); §682.200(b)]

- A state agency functioning as a secondary market, for purposes of purchasing and holding loans made by other eligible lenders.
  [HEA §435(d)(1)(F); §682.101(a)]

- A nonprofit private agency functioning in any state as a secondary market, for purposes of making Federal Consolidation loans.
  [HEA §435(d)(1)(J); §682.101(a)]

- 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.
  [HEA §435(d)(1)(K); §682.200(b)]

- A guarantor, for purposes of making loans permitted by the Higher Education Act, Sections 428(h) and 428(j).
  [HEA §435(d)(1)(H)]

- An eligible school (see Section 3.2).
  [HEA §435(d)(1)(E); §682.101(a)]

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 and Eligible Lender Trustee Relationships

Special rules apply for a school that acts as a lender or for any party in an Eligible Lender Trustee (ELT) relationship.

### Schools Acting as Lenders

An eligible school may act as a lender under the Federal Stafford Loan Program if it meets all eligibility requirements applicable as of February 7, 2006, and made its first loan under the FFELP on or before April 1, 2006. In addition, in order to continue to participate, the eligible school must meet all of the following criteria:

- The school makes loans only to students enrolled at the school.
  [HEA §435(d)(2)(A)(iii)(III); §682.601(a)(3)(iii)]

- The school makes only subsidized and unsubsidized Stafford loans.
  [HEA §435(d)(2)(A)(iii)(II); §682.601(a)(3)(ii)]

- The school makes loans to only graduate and professional students.
  [HEA §435(d)(2)(A)(iii)(II); §682.601(a)(3)(ii)]

- The school employs at least one person whose full-time responsibilities are limited to the administration of the school's financial aid programs for students attending that school.
  [HEA §435(d)(2)(A)(i); §682.601(a)(1)]

- The school offers an origination fee and/or interest rate that is lower than the statutory maximum for that fee or rate.
  [HEA §435(d)(2)(A)(v); §682.601(a)(5)]

- The school uses the proceeds from its interest benefits and special allowance payments from the Department and from interest payments from its borrowers, as well as the proceeds from the sale or other disposition of its loans (exclusive of return of principal, any financing costs incurred by the school to acquire funds to make the loans, and the cost of charging origination fees and/or interest rates that are lower than the statutory maximum for those fees or rates), for need-based grant programs, except for reimbursement of reasonable and direct administrative expenses. Administrative expenses do not include costs associated with securing financing or offering reduced origination fees, interest rates, or federal default fees to the school's borrowers. The school must demonstrate that funds for need-based grants are used to supplement, rather than replace, the non-federal funds the school would otherwise use for need-based grant programs.
  [HEA §435(d)(2)(A)(viii); HEA §435(d)(2)(B) and (C); §682.601(a)(8), (b), and (c)]

- The school is not a home-study school.
  [HEA §435(d)(2)(A)(ii); §682.601(a)(2)]

- The school does not have a cohort default rate that exceeds 10%.
  [HEA §435(d)(2)(A)(vi); §682.601(a)(6)]

- The school awards any contract for financing, servicing, or administration of its FFELP loans on a competitive basis.
  [HEA §435(d)(2)(A)(iv); §682.601(a)(4)]

- The school submits to the Department an annual lender compliance audit for each fiscal year in which the school engages in activities as an eligible lender. The audit must be conducted by a qualified independent organization or person and must be conducted regardless of the size of the school's loan portfolio or

annual loan volume. (See Subsection 3.8.A for more information regarding the annual compliance audit.) [HEA §435(d)(2)(A)(vii); §682.305(c)(1)(ii); §682.601(a)(7)]

- The school submits to the Department an annual audit of its lending function to document that the school's revenue from lending (special allowance payments, interest payments received from students and the Department, proceeds from any loan sale, etc.) is used to provide need-based grants and that the school applies only a reasonable portion of this revenue toward direct administrative expenses. The purpose of the program audit is to ensure that the revenue from the loan portfolio is used to supplement and not supplant federal and nonfederal funds that would otherwise be directed to need-based grant programs. [HEA §435(d)(8); §682.601(a)(8)(b) and (c)]

#### Eligible Lender Trustee (ELT) Relationships

Effective September 30, 2006, a school may not enter into a new relationship with an eligible lender to make and/or hold a FFELP loan as a trustee for the school or for an organization affiliated with the school, also known as an Eligible Lender Trustee relationship. ELT relationships established prior to September 30, 2006, may continue, and may be renewed, as long as the relationship remains in effect after September 30, 2006, and the ELT held at least one loan in trust on behalf of the school or organization as of that date.
[§682.602(a)]

The parties involved in the ELT relationship must meet the following eligibility requirements:

- A school directly involved in, or affiliated with an organization directly involved in an ELT relationship:
  - Must employ at least one person whose full-time responsibilities are limited to the administration of the school's financial aid programs for students attending that school.
  - Must not be a home study school.
  - Must have a cohort default rate of 10% or less.
  - May lend only to its own students.
  - May make only Stafford loans to graduate and professional students.
  - Must offer an origination fee and/or interest rate that is lower than the statutory maximum for that fee or rate.
  - Must use the proceeds from interest payments from borrowers, interest subsidy and special allowance payments on the loans made and held in trust, and proceeds from the sale or other disposition of the loans, (exclusive of return of principal, any financing costs incurred by the school to acquire funds to make the loan, and the cost of charging an origination fee and/or interest rate that is lower than the statutory maximum for that fee or rate), for need-based grants if the school receives these proceeds directly or indirectly. [§682.602(b)(1)]
- A "school-affiliated organization" is defined as any organization that is directly or indirectly related to the school, and includes, but is not limited to, an alumni organization, foundation, athletics organization, and social, academic, and professional organizations. An organization affiliated with the school and involved in an ELT relationship:
  - Must offer an origination fee and/or interest rate that is lower than the statutory maximum for that fee or rate.
  - Must use the proceeds from interest payments from borrowers, interest subsidy and special allowance payments on the loans made and held in trust, and proceeds from the sale or other disposition of the loans, (exclusive of return of principal, any financing costs incurred by the school to acquire funds to make the loan, and the cost of charging an origination fee and/or interest rate that is lower than the statutory maximum for that fee or rate), for need-based grants if the school receives these proceeds directly or indirectly. [§682.602(b)(2)]
- An eligible lender acting as a trustee:
  - May lend only to students attending the school for which it is a trustee.
  - May make only Stafford loans to graduate or professional students on behalf of that school.

- Must offer an origination fee and/or interest rate that is lower than the statutory maximum for that fee or rate.

- Must ensure that ELT loans are included in the annual lender compliance audit. (See Subsection 3.8.A for more information regarding the annual audit requirement.)
  [§682.602; DCL GEN-06-21]

- Must submit to the Department an annual program audit of its lending function that focuses on ensuring that the revenue from its lending function (special allowance payments, interest payments received from students and the Department, proceeds of any loan sale, etc.) is used to provide need-based grants and that the school applies only a reasonable portion of this revenue to direct administrative expenses. The purpose of the program audit is to ensure that the revenue from the loan portfolio is used to supplement and not supplant federal and nonfederal funds that would otherwise be directed to need-based grant programs.
  [HEA §435(d)(8)]

## 3.3 Participation and Guarantees

Before making FFELP loans to borrowers, lenders must enter into agreements with guarantors and receive U.S. 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 Subsection 3.3.C.

## 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) through (9)]

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

## 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.

#### Blanket Certificate of Loan Guarantee Program

The Higher Education Amendments of 1998 authorized the creation of a Blanket Certificate Guarantee Program.

A blanket certificate of loan guarantee (blanket guarantee) permits a lender to make Stafford and PLUS loans to eligible borrowers without receiving prior approval from the guarantor.
[HEA §428(n)]

▲ Lenders may contact individual guarantors for information on the availability of, and participation in, a blanket guarantee program.

See Subsection 15.1.B for information on the use of blanket guarantee for Federal Consolidation loans.

## 3.3.C 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 and Standards

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/Dear Partner 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 18).

### 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. If a borrower disputes the terms of a loan in writing, and the lender does not resolve the dispute, the lender must provide the borrower with information regarding an appropriate guarantor contact for the resolution of the dispute.
[§682.208(c)(1) and (c)(3)(i)]

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.
[§682.203(a)]

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)]

#### Standards for Electronic Signatures

DPL GEN-01-06 provides voluntary standards associated with the use of electronic signatures in electronic student loan transactions. These voluntary standards establish safe harbor provisions that the lender may implement as protection from the loss of guarantee, federal interest benefits, and special allowance payments if a loan is determined to be legally unenforceable based solely on the processes used for the electronic signature or related records. If a lender's processes for electronic signatures and related records do not satisfy these standards and a loan is held by a court to be unenforceable based solely on these processes, the Department will determine on a case-by-case basis whether federal benefits will be denied or paid.

Because students attending eligible foreign schools may receive FFELP loan proceeds directly, the safe harbor provisions do not apply to loans made to students attending foreign schools.
[P.L. 106-229, the Electronic Signatures in Global and National Commerce Act]

## 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 applications and promissory notes are explained in "Required Records" in this section. 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.
[§682.414(a)(4)(i)]

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).
[§668.24(d)(3)(i) through (iv)]

#### Required Records

The records that a lender must maintain include, but are not limited to:

- Documentation of any Federal Stafford Loan Master Promissory Note (Stafford MPN) Confirmation or Notification process or processes.
  [§682.414(a)(4)(ii)(K)]

- Documentation of the process under which either the school or lender obtains the borrower's requested loan amount for a loan made under a Federal PLUS Loan Application and Master Promissory Note (PLUS MPN).

In addition, the lender must maintain the following documentation for each loan:

- A record of the borrower's requested loan amount for a loan made under a PLUS MPN, if the lender is the party responsible for obtaining this information.

- A record of any adjustments that the lender receives to the PLUS loan borrower's requested loan amount.

- A copy of the loan application, if a separate application was provided to the lender.
  [§682.414(a)(4)(ii)(A)]

- A copy of the signed promissory note. The original or a true and exact copy of the promissory note must be retained until the loan is paid in full or assigned to the Department. If the promissory note was signed electronically, the holder must store the original promissory note or MPN electronically in a retrievable, coherent format and must retain the original promissory note or MPN for at least 3 years after the loan or all the loans that were made using the note have been satisfied (i.e., the loans have been paid in full, canceled, or discharged in full). More information on promissory note retention is found under the subheading "Record Retention Time Frames" in this subsection.
  [§682.414(a)(4)(ii)(B) and (4)(iii); §682.414(a)(5)(ii) and (iv)]

- The guarantee disclosure for each loan, with a record of any changes to the disclosure.

- A record of each disbursement of loan proceeds. [§682.414(a)(4)(ii)(D)]

- 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. [§682.414(a)(4)(ii)(E)]

- Notice of address changes for the borrower or references. [§682.414(a)(4)(ii)(E)]

- Documentation of all repayment terms established with the borrower, including the repayment start date of the loan and the amount and number of installments. [§682.414(a)(4)(ii)(C)]

- 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. [§682.414(a)(4)(ii)(I)]

- Evidence of any deferment eligibility, including the beginning and ending dates for each deferment. [§682.414(a)(4)(ii)(F)]

- Documentation of any forbearance granted, including the beginning and ending dates for each forbearance. [§682.414(a)(4)(ii)(G)]

- Documentation of all due diligence efforts. [§682.414(a)(4)(ii)(J)]

- 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 nationwide consumer reporting agency. [§682.414(a)(4)(ii)(J)]

- 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. [§682.414(a)(4)(ii)(H)]

- Audit trails sufficient to support the lender's payment of origination fees and billings of interest benefits and special allowance to the Department. [§682.305(c); §682.414(a)(4)(iv)]

- Any additional records necessary to document the validity of a claim against the guarantee (see Subsection 13.1.D). [§682.414(a)(4)(ii)(L)]

**Loans Made with an Electronically Signed Promissory Note and Assigned to the Department**

In order to resolve a factual dispute involving a loan that has been assigned to the Department, the Department may request a record, affidavit, certification, or evidence to resolve that dispute. The Department may also request this documentation for a loan that has been assigned and is included in a Title IV program audit sample or other similar purposes.

Upon the Department's request regarding a loan that has an electronically signed promissory note and has been assigned to the Department, the lender that created the original electronically signed promissory note must, within 10 business days, provide:

- An affidavit or certification regarding the creation and maintenance of the electronic records of the loan or loans in a form appropriate to ensure admissibility of the loan records in a legal proceeding. This affidavit or certification may be executed in a single record for multiple loans provided that this record is reliably associated with the specific loans to which it pertains.

  If requested by the Department, the affidavit or certification must include each of the following:

  - A description (such as a flow chart) of the steps the borrower followed to execute the promissory note.

  - A copy of each screen as it would have appeared to the borrower when the borrower signed the promissory note electronically.

  - A description of the field edits and security measures used to ensure the integrity of the data that was submitted electronically to the originating lender.

  - A description of how the promissory note has been safe-guarded to ensure that it was not altered after it was executed.

  - Documentation supporting the lender's authentication and electronic signature process.

  - All other documentary and technical evidence requested by the Department to support the validity or the authenticity of the electronically signed promissory note.

- Testimony by an authorized official or employee of the lender, if necessary to ensure admission of the electronic records of the loan or loans in the litigation or legal proceeding to enforce the loan or loans.

The holder of the original electronically signed promissory note is responsible for ensuring that all parties entitled to access to the electronic loan record, including the guarantor and the Department, have full and complete access to that record until all the loans made on the note have been satisfied.
[§682.414(a)(6)(i)]

#### Record Retention Time Frames

The preceding records for each loan must be retained for a period of not less than:

- 3 years after the date the loan is paid in full by the borrower.
  [§682.414(a)(4)(iii)]

- 5 years after the date the lender receives payment in full from any other source.
  [§682.414(a)(4)(iii)]

A lender that sells a loan to another lender remains subject to the 5-year minimum 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 minimum 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. The holder of the original promissory note must retain an electronically signed promissory note or MPN for at least 3 years after the loan or all the loans made using the note have been satisfied.
[§682.414(a)(4)(iii); §682.414(a)(5)(iv)]

When a loan is paid in full by the borrower, the lender must either return the original or a true and exact copy of the promissory note to the borrower, or notify the borrower that the loan is paid in full. A copy of the promissory note must be retained for a period of not less than 3 years after the date the loan is paid in full by the borrower, or not less than 5 years after the date the lender receives payment in full from any other source. In the case of an electronically signed promissory note, the holder must retain the original promissory note or MPN for at least 3 years after the loan or all the loans made using the note have been satisfied. Documentation of any paid-in-full notice sent to the borrower also must be retained for a period of not less than 3 years after the date the loan is paid in full by the borrower.
[§682.414(a)(5)(iii) and (iv)]

## 3.4.B
## Loan Assignment, Sale, or Transfer

A borrower must be notified if his or her loan is assigned, sold, or transferred—if the loan is in a grace or repayment status—and the transaction causes a change in the party to whom the borrower must send future payments and communications. The loan holder also must report a loan assignment, sale, or transfer to the guarantor. See Subsection 3.5.E.
[§682.208(e)(1) and (4)]

#### Loan Assignment and Sale

A loan assignment or sale may occur only between holders that are eligible to participate in the loan and guarantor programs applicable to the type of loan being assigned or sold. For example, a PLUS loan may be assigned only if the current holder and the new holder are both eligible to make or hold PLUS loans and both have participation agreements with the guarantor of the loan.
[§682.401(b)(17)(i)]

If the assignment or sale of the loan changes the identity of the party to whom payments must be made, the loan may be assigned or sold only if it is fully disbursed. If the loan assignment or sale does not change the identity of the party to whom payments are made, the lender may assign or sell the loan any time after making the first disbursement.
[§682.401(b)(17)(i) and (iii)]

When a loan made under a Master Promissory Note (MPN) is sold, the terms of the loan sale determine whether the origination rights (i.e., the right to make subsequent loans to the borrower under the same MPN) are assigned to the new holder of the loan or retained by the original holder. Origination rights may not be assigned without a loan sale. Each loan made under an MPN may be enforced separately based on the original MPN or a true and exact copy of the MPN. See Section 7.2 for additional information.

Both the buying and selling holders must notify the borrower—either jointly or separately—of a loan's assignment or the transfer of an ownership interest in the

loan. This notification must include the following information:
[§682.208(e)(1)(i)]

- The identity of the buying lender and/or the new servicer.
  [§682.208(e)(1)(ii)]

- The address to which the borrower's subsequent payments and communications should be sent.
  [§682.208(e)(1)(iii)]

- The telephone numbers of both the buying and selling lenders—or, if either lender utilizes a servicer, the telephone number of each servicer.
  [§682.208(e)(1)(iv)]

- The effective date of the loan's assignment or the transfer of an ownership interest in the loan.
  [HEA §428(b)(2)(F)(i)(V); §682.208(e)(1)(v)]

- The date on which the current holder or servicer will stop accepting payments, if applicable, and the date on which the new holder or servicer will begin accepting payments.
  [HEA §428(b)(2)(F)(i)(VI) and (VII); §682.208(e)(1)(vi) and (vii)]

Each holder must send the preceding information to the borrower within 45 days after the assignment or transfer of ownership interest is legally completed. If each holder provides a separate notification to the borrower, each must include in its notification a statement that the other holder will be sending a similar notification under separate cover.
[§682.208(e)(1) and (2)]

#### Loan Transfer

In some cases—such as a servicer transfer or branch transfer—a FFELP loan that is in grace or in repayment is not assigned or 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 retain a record of the notice for at least 3 years after the date the loan is paid in full by the borrower or 5 years after the date the lender receives payment in full from any other source. This record may be stored on microform, optical disk, or other machine-readable format, and must be available for program compliance reviews.
[§682.414(a)(4)(ii)(H) and (iii); §682.414(a)(5)(i)]

## 3.4.C
## Permitted and Prohibited Activities

#### Permitted Activities

A lender is permitted to engage in the following activities in carrying out its role in the FFELP and providing service to schools and FFELP borrowers. The lender may provide:

- Technical assistance to a school that is comparable to the kinds of technical assistance provided to a school by the Department under the Federal Direct Loan Program, as identified by the Department in public announcements, such as a notice in the *Federal Register.*
  [HEA §435(d)(5)(I); §682.200(b) definition of *lender* (5)(ii)(A)]

- Entrance and exit counseling services, as long as the school's staff is in control of the counseling, whether in person or via electronic capabilities, and such counseling does not promote the products and services of any specific lender.
  [HEA §435(d)(5)(E) and (F)]

- Support of, and participation in, a school's or guarantor's student aid or financial literacy-related outreach activities, as long as the name of the entity that developed and paid for any materials is provided to the participants and the lender does not promote its student loan or other products.

- Meals, refreshments, and receptions that are reasonable in cost and scheduled in conjunction with training, meeting or conference events, if those meals, refreshments, or receptions are open to all training, meeting, or conference attendees.

- Toll-free numbers for use by a school or others to obtain information about FFELP loans.

- Free data transmission service for a school to use in electronically submitting applicant loan information or student status information or confirmation data.

- A reduced origination fee (when permitted by statute; see Subsection 3.5.A).

- A reduced interest rate.

- Payment of the federal default fee on behalf of the FFELP borrower.

- A premium payment to another lender for the purchase of a loan.

- Other benefits to a borrower under a repayment incentive program that requires, at a minimum, one or more scheduled payments in order to receive or retain the benefit.

- Benefits under a loan forgiveness program for public service or other targeted purposes approved by the Department, provided these benefits are not marketed to secure loan applications or loan guarantees.

- Items of nominal value to schools, school-affiliated organizations, and to borrowers that are offered as a form of generalized marketing or advertising, or to create good will.

- Staffing services to a school on a short-term, emergency, non-recurring basis to assist a school with financial aid-related functions. Such services may not be provided in an effort to secure FFELP loan applications or loan volume. The term "emergency basis" for the purpose of providing staffing support means only in the instance of a state- or federally-declared natural disaster or national disaster, and in the instance of other localized disasters and emergencies identified by the Department.
  [HEA §435(d)(5)(A); *Federal Register* dated October 28, 2009, p. 55632]

- Other services identified by the Department through a public announcement, such as a notice in the *Federal Register.*

[§682.200(b)]

The references to "applications" above includes the Free Application for Federal Student Aid (FAFSA), and FFELP Master Promissory Notes and application and promissory notes.
[§682.200(b) definition of *lender* (5)(iii)(B)]

### Prohibited Activities

The following activities are prohibited by federal regulations and may result in a loss of the lender's 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:
  [§682.212(a)]

  – Cash payments made to a lender by or on behalf of a school.
    [§682.212(b)(1)]

  – The maintenance of a compensating balance with a lender by or on behalf of a school.
    [§682.212(b)(2)]

  – Payments to a lender by or on behalf of a school for servicing costs on loans that the school does not own.
    [§682.212(b)(3)]

  – Payments to a lender by or on behalf of a school for unreasonably high servicing costs on loans owned by the school.
    [§682.212(b)(4)]

  – Purchase of a lender's stock by or on behalf of a school.
    [§682.212(b)(5)]

  – Payments ostensibly made for other purposes.
    [§682.212(b)(6)]

- 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 (including payments for referrals and for processing or finder fees), prizes, stock or other securities, travel, entertainment expenses, tuition payment or reimbursement, the provision of information technology equipment at below-market value, additional financial aid funds, or other inducements to any school, any employee of the school, or any individual or entity in order to secure applications for FFELP loans or to secure FFELP loan volume. This includes but is not limited to:

  - Payments or offerings of other benefits, including prizes or additional financial aid funds, to a prospective borrower in exchange for applying for or accepting a FFELP loan from the lender.

  - Payments or other benefits to a school, any school-affiliated organization or to any individual in exchange for FFELP loan applications, application referrals, or a specified volume or dollar amount of loans made, or placement on the school's list of recommended or suggested lenders.

  - Payments or other benefits provided to a student at a postsecondary school who acts as the lender's representative to secure FFELP loan applications from individual prospective borrowers, unless the student is also employed by the lender for other purposes and the student discloses that employment to school administrators and prospective borrowers.
    [HEA §435(d)(5)(G); §682.200(b) definition of *lender* (5)(i)(A)(3)]

  - Payments or other benefits to a loan solicitor or sales representative of a lender who visits schools to solicit individual prospective borrowers to apply for FFELP loans from the lender.

  - Payment to another lender or any other party, including a school, a school employee, or a school-affiliated organization or any of its employees of referral, finders', or processing fees, except those processing fees necessary to comply with federal or state law.
    [HEA §435(d)(5); §682.200(b) definition of *lender* (5)(i)(A)(5)]

  - Compensating a school financial aid office employee or a school employee who has responsibilities with respect to the school's student loans or other financial aid, or paying compensation to a school-affiliated organization or any of its employees for service on an advisory board, commission, or group established by a lender or group of lenders, except that a lender may reimburse such an employee for reasonable expenses incurred in providing that service.
    [HEA §435(d)(5)(D); §682.200(b) definition of *lender* (5)(i)(A)(6)]

  - Payment of conference or training registration, travel, and lodging costs for an employee of a school or school-affiliated organization.
    [HEA §435(d)(5); §682.200(b) definition of *lender* (5)(i)(A)(7)]

  - Payment of entertainment expenses, including expenses for private hospitality suites, tickets to shows or sporting events, meals, alcoholic beverages, and any lodging, rental, transportation, and other gratuities related to lender-sponsored activities for employees of a school or a school-affiliated organization.

  - Philanthropic activities, including providing scholarships, grants, restricted gifts, or financial contributions in exchange for FFELP loan applications or application referrals, or for a specified volume or dollar amount of FFELP loans made, or for placement on a school's list of recommended or suggested lenders.

- Performing for a school or paying, on behalf of a school, another person to perform any function that the school is required to perform under any Title IV program, with the following exceptions:

  - A lender may participate in person in a school's required entrance and exit counseling as long as the school's staff is in control of the counseling, whether in person or via electronic capabilities, and such counseling does not promote the products or services of any specific lender.

  - A lender may provide certain services to participating foreign schools at the direction of the Department as a third-party servicer.
    [HEA §435(d)(5)(E) and (F); HEA §487(e)(2)(B)(ii)(IV); §682.200(b) definition of *lender* (5)(i)(A)(10)]

- Conducting unsolicited mailings, by mail or electronically, of student loan application forms to a student enrolled in a secondary or postsecondary school or his or her family members, unless the lender has previously made a FFELP loan to the student or the student's parent.
  [HEA §435(d)(5)(B); §682.200(b) definition of *lender* (5)(i)(B)]

- Entering into any type of consulting arrangement or other contract, with an employee in the financial aid office of a school or an employee who has responsibilities with respect to student loans or other financial aid at the school, to provide services to the lender.
  [HEA §435(d)(5)(C); §682.200(b) definition of *lender* (5)(i)(A)(11)]

- Offering FFELP loans—directly or indirectly—as an inducement to a prospective borrower to purchase an insurance policy or other product or service by the borrower or other person.
  [HEA §435(d)(5)(H); §682.200(b) definition of *lender* (5)(i)(C)]

- Engaging in fraudulent or misleading advertising with respect to its FFELP activities.
  [HEA §435(d)(5)(I); §682.200(b) definition of *lender* (5)(i)(D)]

- 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 a state agency functioning as a secondary market, or in other circumstances approved by the Department.
  [§682.212(c) and (d)]

- 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 a state agency functioning as a secondary market, or in other circumstances approved by the Department.
  [§682.212(d)]

The references to "applications" above include the Free Application for Federal Student Aid (FAFSA) and FFELP Master Promissory Notes, and application and promissory notes.
[§682.200(b) definition of *lender* (5)(iii)(B)]

For purposes of clarifying prohibited lender activities, "other benefits" includes but is not limited to preferential rates for, or access to the lender's other financial products, computer hardware or non-loan processing or non-financial aid-related software at below-market rental or purchase cost, or printing and distribution of college catalogs and other materials at reduced or no cost.
[§682.200(b) definition of *lender* (5)(iii)(C)]

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 limit, suspend, or terminate its eligibility to participate in the FFELP. In any such action, if the Department, its designee, or Hearing Officer finds that the lender offered or provided payments or activities that violate the inducement provisions listed in this subsection under *Prohibited Activities,* the Department or the Hearing Officer will apply a rebuttable presumption that the payments or activities were offered or provided to secure FFELP loan applications or FFELP loan volume. To reverse this presumption, the lender must present evidence that the activities or payments in which the lender engaged were provided for a reason unrelated to securing FFELP loan applications or FFELP loan volume. For more information on limitation, suspension, and termination actions, see Chapter 18.
[§682.705(b) and (c); §682.706(a) and (d)]

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.

## 3.4.D Borrower Defenses

In some cases, a loan held by a lender may be subject to borrower claims and defenses that the borrower might otherwise assert against the school (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 any of the following criteria:

- The loan was made by the school or a school-affiliated organization.

- The loan was made by a lender that provided improper inducements to the school or to another party in the making of the loan. (See Subsection 3.4.C for more information regarding improper lender activities.)

- The loan was made for attendance at a school that referred the borrower to the lender.

- The loan was made for attendance at a school that was affiliated by common control, contract, or other business with the originating lender.

## 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:

- Federal default (formerly guarantee) and origination fees.
  [§682.202(c) and (d)]

- Interest (not to exceed the applicable statutory rate).
  [§682.202(a)]

- Capitalized interest.
  [§682.202(b)]

- Late charges.
  [§682.202(f)]

- Reasonable collection costs, such as court costs and attorney fees incurred by the lender or its servicer in collecting a delinquent loan.
  [§682.202(g)(1)]

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.
[§682.202(h)]

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.
[§682.202(e)]

#### 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(g)(2)]

## 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 and Lender Fee

This subsection contains information on two fees that a lender is required to pay to the Department. One is a federal origination fee that a lender must pay for each Stafford and PLUS loan it originates; the other is a lender fee that a lender must pay for each FFELP loan it originates.

#### Assessing the Origination Fee

*Stafford Loans*

A Stafford loan first disbursed on or after July 1, 1994, but before July 1, 2006, is subject to a maximum 3% federal origination fee. Beginning July 1, 2006, the maximum origination fee that a lender may charge to a Stafford loan borrower will change annually through July 1, 2010, as follows:

- A Stafford loan first disbursed on or after July 1, 2006, will have a maximum fee of 2%.

- A Stafford loan first disbursed on or after July 1, 2007, will have a maximum fee of 1.5%.

- A Stafford loan first disbursed on or after July 1, 2008, will have a maximum fee of 1%.

- A Stafford loan first disbursed on or after July 1, 2009, will have a maximum fee of 0.5%.

- A Stafford loan first disbursed on or after July 1, 2010, will have no origination fee (the fee will be eliminated).

The lender must pay to the Department the maximum applicable origination fee for each Stafford loan that it makes, regardless of whether the lender requires the borrower to pay all or a portion of the fee. Remitting the origination fee payment is generally the responsibility of the originating lender. Before purchasing a loan, a lender should obtain confirmation that the origination fee has been paid.

*PLUS Loans*

A PLUS loan first disbursed on or after July 1, 1994, is subject to a 3% federal origination fee. The lender must charge the full 3% origination fee to any PLUS loan borrower. The reductions in the Stafford loan origination fee are not applicable to PLUS loans made either to parents or to graduate and professional students.

The lender must pay to the Department the full origination fee that it charges to the borrower for each PLUS loan that it makes. Remitting the origination fee payment is generally the responsibility of the originating lender. Before purchasing a loan, a lender should obtain confirmation that the origination fee has been paid.
[§682.202(c)(1) and (5)]

### Charging a Lesser Origination Fee

The lender may reduce or waive the origination fee it charges its Stafford borrowers, but must ensure that origination fees are assessed equally to all Stafford borrowers who reside in a particular state or attend school in that state. The exception to this rule is that the lender may charge a lesser fee to a Stafford borrower who demonstrates "greater financial need" based on any one of the following qualifications:
[§682.202(c)(2)]

- The borrower's expected family contribution (EFC), used to determine loan eligibility, is equal to or less than the maximum qualifying EFC for a Federal Pell grant at the time the loan is certified.
  [§682.202(c)(2)(i)]

- The borrower qualifies for a subsidized Stafford loan.
  [§682.202(c)(2)(i)]

- The borrower meets a comparable standard approved by the Department.
  [§682.202(c)(2)(ii)]

If a lender charges a lesser origination fee to a Stafford borrower who has been determined by the lender to have "greater financial need," the lender must charge all such borrowers who reside in that state or attend school in that state an origination fee that is calculated at the same percentage rate. In addition, if the lender charges the borrower a lesser origination fee on an unsubsidized Stafford loan, the lender must charge that borrower an origination fee that is calculated at the same percentage rate on a subsidized Stafford loan.
[§682.202(c)(3) and (4)(ii)]

Lenders should note that the regulations consider either of the following to be a single lender for purposes of charging a lesser origination fee to qualifying borrowers:

- All lenders under common ownership, including ownership by a common holding company, that make loans to borrowers in a particular state.
  [§682.202(c)(4)(i)(A)]

- Any beneficial owner of loans that provides funds to an eligible lender trustee to make loans on the beneficial owner's behalf in a particular state.
  [§682.202(c)(4)(i)(B)]

### Lender Fee

In addition to the origination fee, lenders are charged a lender fee based on the principal amount of each FFELP loan made. This fee is paid to the Department and cannot be charged to the borrower. For loans first disbursed on or after October 1, 1993, and prior to October 1, 2007, the lender fee is 0.5% of the principal loan amount. For loans first disbursed on or after October 1, 2007, the lender fee is 1.0% of the principal loan amount.
[HEA §438(d); §682.305(a)(3)(ii)]

### Fee Reporting and Payment

The lender reports the amount of origination and lender fees due each quarter on the Lender's Interest and Special Allowance Request and Report (LaRS report).
The reporting of both fee categories results in an offset to the amount of quarterly interest benefits and special allowance payments to which the lender would otherwise be eligible. If fees are owed, the lender must submit the LaRS report to the Department even if the lender is not owed or does not wish to receive interest benefits or special allowance payments. For more information on processing

federal origination fees, see Subsection 7.9.A. For more information on the LaRS report, see Appendix A. [§682.305(a)(1); DCL 93-L-161/93-G-246/93-S-71; DCL FP-06-01; DCL FP-07-11]

#### 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 a LaRS report 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-170/94-G-262]

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 a Lender's Interest and Special Allowance Request and Report (LaRS report) each quarter. For more information on requirements related to interest benefits and special allowance and on the LaRS report, see Appendix A.

## 3.5.C
## Reporting to Nationwide Consumer Reporting Agencies

A lender must report information on each FFELP loan it makes or holds to all nationwide consumer reporting agencies. The lender must report all of the following information within the specified time frames, as applicable: [HEA §430A(a); §682.208(b)(1)]

- The loan is an education loan. [HEA §430A(a)]
- The total amount of loans made to the borrower (to be reported within 90 days of each disbursement). [§682.208(b)(1)(i)]
- The outstanding balance of the borrower's FFELP loans held by the lender. [§682.208(b)(1)(ii)]
- The repayment status of loans, including delinquent loans, not to affect any otherwise applicable provisions of the Fair Credit Reporting Act. The minimum frequency with which a lender must report status changes to all nationwide consumer reporting agencies 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 the nationwide consumer reporting agencies. [§682.208(b)(1)(iii); DCL 96-L-186/96-G-287, Q&A #16]
- 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). [§682.208(b)(1)(iv)]
- The date the loan is discharged due to the borrower's death, disability, bankruptcy, or discharged under the spouses and parents of victims of September 11, 2001, provisions (to be reported within 90 days of the date the loan is discharged). [§682.208(b)(1)(iv)]
- 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

nationwide consumer reporting agency remove any negative or inaccurate 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 13.8.B, 13.8.D, and 13.8.E.
[§682.402(d)(7)(iv) and (e)(2)(iv); §685.214(b)(4)]

- Other information required by federal or state law. [§682.208(b)(1)(v)]

A lender purchasing a FFELP loan must report the preceding information, as applicable, to all nationwide consumer reporting agencies within 90 days of purchasing the loan. The lender must retain evidence of its credit 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 nationwide consumer reporting agency, the lender must do so within 30 days of the request. If a consumer dispute has been filed with a nationwide consumer reporting agency, the lender must respond to a borrower's or endorser's request for information within 30 days.
[§682.208(c)(1)]

A guarantor will report each loan it purchases as a default claim to all nationwide consumer reporting agencies.
[§682.410(b)(5)]

If a lender receives a valid identity theft report or notification of an alleged identity theft from a nationwide consumer reporting agency, the lender must suspend reporting on the loan to the nationwide consumer reporting agency for a period not to exceed 120 days while the lender determines the legal enforceability of the loan. If a lender determines that a loan does not qualify for a false certification loan discharge as a result of the crime of identity theft, but the lender still determines the loan to be legally unenforceable, the lender must notify the nationwide consumer reporting agency of the determination. FFELP consumer reporting requirements do not preempt the provisions of the Fair Credit Reporting Act (FCRA) that provide relief to a borrower while a lender determines the legal enforceability of a loan after receiving a valid identity theft report or notification from a nationwide consumer reporting agency of an alleged identity theft. See Subsection 13.8.E for more information on loan discharge as a result of the crime of identity theft.
[§682.208(b)(3); 682.411(o)(2)]

## 3.5.D Reporting Loan Information

A lender must report enrollment and loan status information, or any FFELP loan-related data to the guarantor or to the Department, as applicable, by the deadline established by the Department. 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 lender reporting of enrollment changes, see Subsection 10.1.B.

## 3.5.E Reporting Loan Assignments, Sales, and Transfers

If a loan holder assigns or sells a loan, either the assignee or the assignor on behalf of the assignee must notify the guarantor of the change within 45 days of the assignment or sale. The notification should provide the new holder's name, lender identification number (LID), address, and telephone number. A holder with more than one lender identification number must notify the guarantor if it changes a loan from one of its LIDs to another of its LIDs.
[§682.208(e)(4)]

If a holder transfers the servicing on a loan from one entity to another, the holder must report the change to the guarantor within 45 days of the transfer.

The assignment, sale, or transfer of a loan should be reported on the appropriate guarantor form or by an equivalent electronic process. If the holder wants to report an assignment, sale, or transfer using its own form or process, the format must contain all data elements required by the guarantor. If one holder acquires the entire portfolio of another holder due to a merger, acquisition, bank closing, or similar situation, it may not need to complete a guarantor form or list each of the loans being sold, but may work with the guarantor to establish an efficient and effective method of ensuring that the guarantor's records are updated to reflect the most current holder information.

A consolidating lender must report the assignment, sale, or transfer transaction simultaneously for the entire Consolidation loan, even if the lender establishes more than a single loan servicing record for the subsidized, unsubsidized, and HEAL portions of the loan.

▲ 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
## Reporting Social Security Number, Date of Birth, and First Name Changes or Corrections

At any time during the life of the loan, if a lender becomes aware of a discrepancy in a borrower's Social Security number (SSN), date of birth, or first name, or it discovers that it had previously reported an incorrect SSN, date of birth, or first name, the lender must report the correct information to the guarantor and appropriate nationwide consumer reporting agencies.

The lender must retain a copy of the document substantiating the SSN, date of birth, or first name change or correction. 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, date of birth, or first name on its system.

If a lender identifies an SSN, date of birth, or first name discrepancy, exhausts its efforts to verify the correct information, 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.

If a lender learns that the SSN, date of birth, or first name is incorrect due to a data entry error, the lender may change the incorrect information using the original documentation submitted. The lender must document the reason it made the change.

### Acceptable Source Documents for Reporting Social Security Number (SSN) Changes

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

- Social Security card or other Social Security Administration document.
- W-2 form.
- Unexpired U.S. military ID.
- If the discrepancy resulted from a data input error, the loan application, the Master Promissory Note (MPN), or the loan certification.
- State driver's license or state-issued identification card on which the SSN is listed.

Some guarantors have alternative requirements regarding acceptable source documents. These requirements are noted in Appendix C.

### Acceptable Source Documents for Reporting the Correction of a Date of Birth

A guarantor considers any of the following documents a valid source for reporting the correction of a date of birth:

- Birth certificate.
- Current driver's license (if it contains a birth date).
- State ID (if it contains a birth date).
- U.S. Passport or passport card (current or expired).
- Unexpired U.S. military ID.

### Acceptable Source Documents for Reporting a First Name Change

A guarantor considers any of the following documents a valid source for reporting a first name change:

- Court order.
- Marriage certificate.
- Certificate of Naturalization.

### Acceptable Source Documents for Reporting the Correction of a First Name

A guarantor considers any of the following documents a valid source for reporting the correction of a first name:

- Social Security card.
- Current driver's license.
- Birth certificate.
- State ID.
- U.S. Certificate of Naturalization (Form N-550 or N-570).
- Court order.
- Marriage certificate.
- W-2 Form.
- U.S. Passport or passport card (current or expired).
- Unexpired U.S. military ID.
- U.S. military discharge papers (Form DD214).
- U.S. Certificate of Citizenship (Form N-560 or N-561).
- Alien Registration Card (Form I-551 or I-151).

## 3.5.G NSLDS Reporting

The National Student Loan Data System (NSLDS) is a national database of information on Title IV aid, including FFELP loans. The NSLDS was developed to provide loan-level information on Title IV loans and to provide an integrated view of other Title IV programs. The overall goals of the NSLDS are to improve the quality and accessibility of student aid data, reduce the burden of administering Title IV aid, and minimize abuse within the aid programs through accurate tracking of funds awarded to assist the postsecondary students for whom the programs were designed.

A lender must report NSLDS data on each FFELP loan it holds to the appropriate guarantor. A lender is strongly encouraged to report this data on a monthly basis, but must report it at least quarterly. A lender may arrange for a designated servicer to report on its behalf.

A lender may report 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). The lender reporting requirement may also be met through the Common Account Maintenance (CAM) process if the guarantor agrees and the lender provides all the required data, including any resubmission that may be necessary as the result of an error. The lender and guarantor may agree to another format, in which case the guarantor may opt to discontinue the NSLDS Lender Manifest reporting requirement. Although the NSLDS Lender Manifest 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. [§682.208(i); DCL 95-L-177; NSLDS Technical Update for Lenders and Lender Servicers 2000-01]

## 3.5.H Reporting Loans Paid in Full

A lender must report promptly to the guarantor each loan that is paid in full, including the date that the loan was paid in full. The transaction must be reported on the appropriate guarantor form or by an equivalent tape or electronic 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 another source (such as borrower payments) in its National Student Loan Data System (NSLDS) reporting. The guarantor relies on the lender's report to ensure the accuracy of this distinction.

When a loan is paid in full by the borrower or another source, the lender must notify the borrower that the loan is paid in full. The lender must report the paid-in-full status to at least one nationwide consumer reporting agency, as required in Subsection 3.5.C.

## 3.5.I Reporting Information Relating to Preferred Lender Arrangements

A lender that has a preferred lender arrangement with a school or an institution-affiliated organization must report to the Department on an annual basis each of the following:

- Any reasonable expenses for service on a lender advisory board, commission, or group established by a lender or group of lenders that were paid or provided to any agent of a school who is employed in the financial aid office or who has other responsibilities with respect to education loans or other student financial aid at the school.

- Any reasonable expenses paid or provided to any agent of an institution-affiliated organization who is involved in recommending, promoting, or endorsing education loans.

[HEA §152(b)(1)(B); §601.40(b)(1) and (2)]

This report must include all of the following each time expenses are paid or provided by a lender:

- The amount of the expenses.

- The name of the agent at the school or institution-affiliated organization.

- The date and a brief description of the activity.

[HEA §152(b)(1)(B); §601.40(b)(3)]

A lender that has a preferred lender arrangement must provide to a school or institution-affiliated organization, as well as to the Department, information regarding each type of FFELP loan the lender plans to offer under the preferred lender arrangement to students or families of students attending that school for the next award year. The specific information the lender must provide will be determined by the Department and the Board of Governors of the Federal Reserve System.
[HEA §153(b); §601.40(d)]

If a lender is participating in one or more preferred lender arrangements, the lender must certify on an annual basis that it is in compliance with the requirements of the Higher Education Act (HEA). If a lender is required to submit an annual audit, the auditor may provide this certification as part of that audit (see Subsection 3.8.A). If a lender is not required to submit an annual audit, the lender must submit this certification directly to the Department.
[HEA §152(b)(2); §601.40(c)]

## 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.
[§682.200(b)]

### 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.
  [§682.416(f)]

### 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.
  [§682.416(a)(1)]

- 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.
  [§682.416(a)(2)]

- The servicer has adequate personnel, who are knowledgeable about the FFELP.
  [§682.416(a)(3)]

## 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.
  [§668.15(b)(1); §682.416(b)]

- The servicer provides the administrative resources necessary to comply with the program requirements.
  [§668.15(b)(2); §682.416(b)]

- 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.
  [§668.15(b)(3); §682.416(b)]

- 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)(4); §682.416(b)]

### For-Profit Servicers

A for-profit servicer must meet the following 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 adding the servicer's cash, cash equivalents, and current accounts receivable—excluding any unsecured or uncollateralized related party receivables—and dividing the total by the sum of total current liabilities.
  [§668.15(b)(7)(i)(A); §682.416(b)]

- 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% of the servicer's net worth at the beginning of the first year of the two-year period.
  [§668.15(b)(7)(i)(B); §682.416(b)]

- The servicer had a positive net worth for its latest fiscal year.
  [§668.15(b)(7)(i)(C); §682.416(b)]

- The servicer can demonstrate to the Department's satisfaction that it has debt obligations (without insurance, guarantee, or credit enhancements) that are currently issued and outstanding and that are listed at or above the second highest rating level of credit quality given by a nationally recognized statistical rating organization.
  [§668.15(b)(7)(ii); §682.416(b)]

### 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.
  [§668.15(b)(8)(i)(A); §682.416(b)]

- 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.
  [§668.15(b)(8)(i)(B); §682.416(b)]

- 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% of either the unrestricted current fund balance or the unrestricted net assets at the beginning of the first year of the two-year period.
  [§668.15(b)(8)(i)(C)(1) and (2); §682.416(b)]

- 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)(ii); §682.416(b)]

### 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.
  [§668.15(b)(9)(i); §682.416(b)]

- The servicer has a positive unrestricted fund balance, if reporting under the Single Audit Act.
  [§668.15(b)(9)(ii); §682.416(b)]

- The servicer has a positive unrestricted current balance in the state's higher education fund, as presented in the general purpose financial statements.
  [§668.15(b)(9)(iii); §682.416(b)]

- 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.
  [§668.15(b)(9)(iv); §682.416(b)]

- 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)(v); §682.416(b)]

### 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.
    [§682.416(d)(1)(i)]

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.
  [§682.416(d)(1)(i)(A)]

- 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.
  [§682.416(d)(1)(i)(B)]

- At least five years have elapsed from the date of the conviction, *nolo contendere* plea, guilty plea, or administrative or judicial determinations.
  [§682.416(d)(1)(i)(C)]

- The servicer, or any principal or affiliate of the servicer, is debarred or suspended under Executive Order 12549 or is engaging in any activity that is cause for debarment or suspension.
  [§682.416(d)(1)(ii)(A) and (B)]

- 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)(2)]

## 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)(4)]

### 3.7.A Eligible Lenders

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

- The designated 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.

[HEA §435(d)(1)(D); §682.401(c)(1)]

### 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

A student or parent may request assistance under the lender of last resort (LLR) program if the student or parent is an eligible FFELP borrower and has been otherwise unable to obtain a Stafford or PLUS loan, as applicable, from another eligible lender for the same period of enrollment. An eligible student or parent borrower who requests assistance under the LLR program may be referred to the designated guarantor in the student's state of residence or to the designated guarantor in the state where the student is attending school.
[§682.401(c)(3); DCL GEN-08-08]

Within 60 days of receiving a complete request from the borrower for an LLR loan, the guarantor must respond to the borrower with an approval or denial. If the LLR loan is approved, the guarantor will either serve as the lender or designate an eligible lender to make the LLR loan. A lender under the LLR program may refuse to make a loan if the borrower fails to meet the lender's credit standards.
[§682.401(c)(4)(v); 08-09 FSA Handbook, Volume 4, Chapter 1, p. 4-8]

The LLR is required to charge the applicable statutory maximum interest rate and origination and federal default fees to students and parents borrowing under the LLR program. The LLR is not permitted to offer to the LLR borrowers other loan terms or conditions that are more favorable than those explicitly provided in statute and regulation. A lender that provides LLR loans is prohibited from marketing those loans and from violating the prohibited inducement provisions (see Subsection 3.4.C).
[DCL GEN-08-08]

If the LLR chooses to cease its participation as an LLR, it must provide at least 60 days' notice to the designated guarantor of its intent to cease LLR operations and that it will ensure that all loans made under the LLR designation are fully disbursed prior to the date on which it ceases LLR operations. The lender must continue to accept additional certifications under the LLR provisions during this 60-day period.
[DCL GEN-08-05]

#### 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 or holds 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. If the lender serves as an eligible lender trustee (ELT) on behalf of a school or a school-affiliated organization, it must ensure that the loans made under the ELT arrangement are included in the annual audit. The audit must cover the period since the most recent audit.
[§682.305(c)(1)]

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 no later than 6 months after the close of the audit period.
[§682.305(c)(2)(i) through (iv)]

For each fiscal year beginning on or after July 1, 2006, a school lender must submit an annual compliance audit that includes its FFELP lending activities regardless of the size of the school's loan portfolio or annual loan volume. A school lender subject to the Single Audit Act is required to include its FFELP lending activities in the annual audit and to include information on those activities in the audit report, whether or not the lending activities or the student financial aid programs are considered a "major program" under the Single Audit Act. Other school lenders must arrange for a separate audit of their lending activities using the Lender Audit Guide.
[HEA §435(d)(2)(A)(vii); §682.601(a)(7)]

A lender is required to submit the compliance audit report to the Department if, during the fiscal year being audited, it made or held more than $5 million in FFELP loans. 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.
[§682.305(c)(1)]

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(c)(1) of the Code], makes FFELP loans only to undergraduate students who are age 22 or younger, and has a 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 80.26.
[§682.305(c)(2)(v)]

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 Part 74.26. 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.
[§682.305(c)(2)(v)]

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)(2)(vii)]

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.
[§682.305(c)(2)(v)]

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 *Government Auditing Standards* issued by the U.S. General Accounting Office (GAO) and the provisions outlined in the Department's applicable audit guide.
[§682.305(c)(2)(v)]

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:
[§682.416(e)(1)]

- The audit must examine the servicer's compliance with the Act and applicable regulations.
  [§682.416(e)(2)(i)]

- The audit must examine the servicer's financial management of its FFELP activities.
  [§682.416(e)(2)(ii)]

- 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).
  [§682.416(e)(2)(iii)]

- If the servicer is a governmental entity, the audit must be conducted in accordance with the Single Audit Act.
  [§682.416(e)(3)]

- If the servicer is a nonprofit organization, the audit must be conducted in accordance with OMB Circular A-133.
  [§682.416(e)(4)]

An audit must be completed annually and submitted no later than 6 months after the end of the servicer's fiscal year.
[§682.416(e)(2)(iv)]

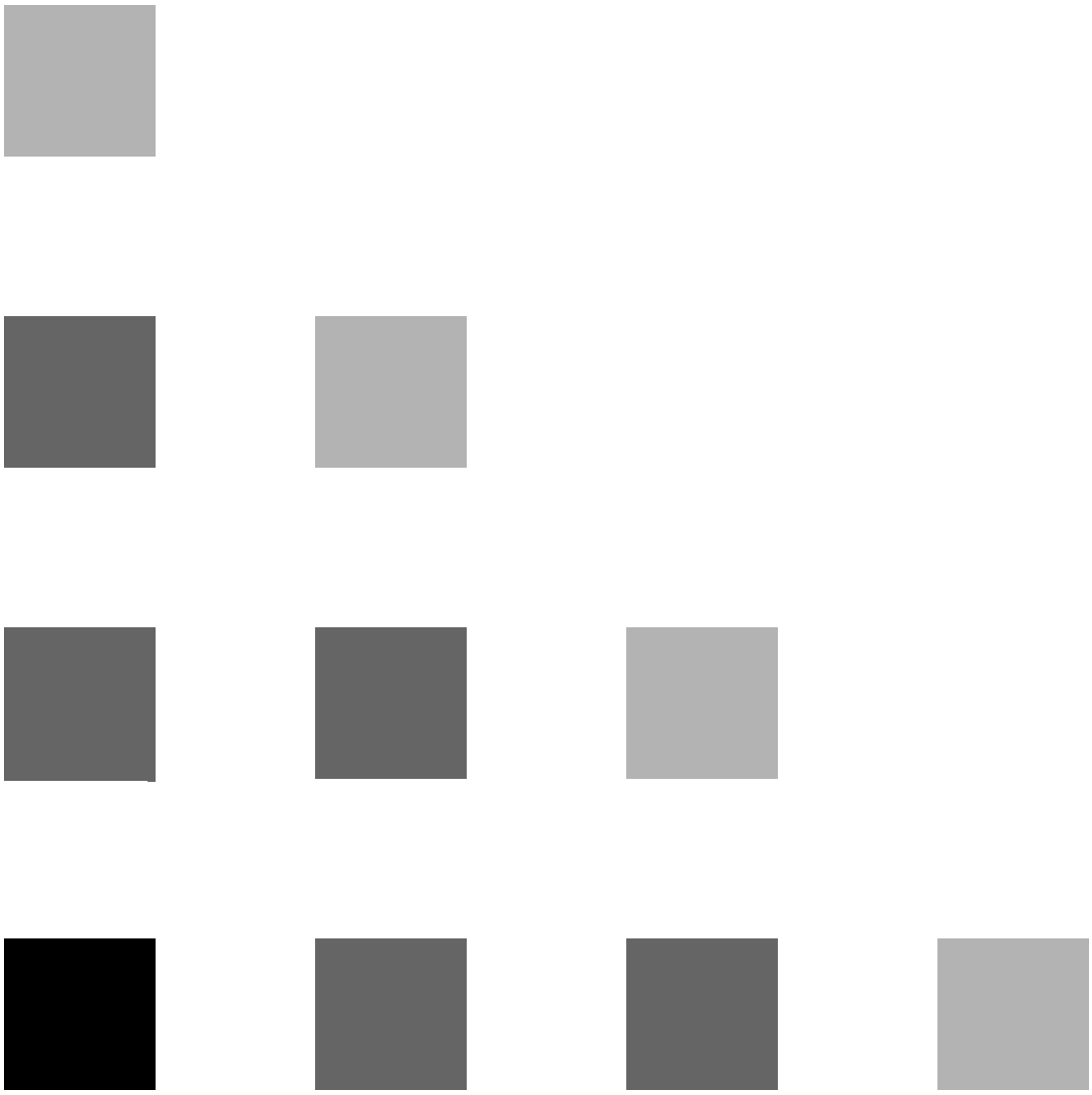
Lenders and servicers should consult the *Audit Guide: Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program,* published December 1996 for information about audit requirements.

# Tab Locator Page

## Remove this page and replace with tab divider.

# Tab Locator Page

## Remove this page and replace with tab divider.



# 4 School Participation


| | | |
|---|---|---|
| 4.1 | School Eligibility | 2 |
| 4.1.A | Establishing Eligibility | 2 |
| 4.1.B | Written Agreements between Schools | 6 |
| 4.1.C | Maintaining Eligibility | 7 |
| 4.1.D | Loss of Eligibility | 21 |
| 4.1.E | School Misrepresentation | 22 |
| 4.1.F | School Code of Conduct | 23 |
| 4.2 | Administrative Capability Standards | 24 |
| 4.2.A | Financial Aid Administrator Responsibilities | 25 |
| 4.2.B | Financial Aid Administrator Training | 26 |
| 4.3 | Financial Responsibility Standards | 27 |
| 4.3.A | General School Financial Responsibility Requirements | 27 |
| 4.3.B | Specific Criteria for Determining School Financial Responsibility | 29 |
| 4.3.C | Sufficient Cash Reserve Requirements | 29 |
| 4.3.D | Composite Score | 31 |
| 4.4 | Providing Information to Students | 33 |
| 4.4.A | Preferred Lender Arrangements and Lists | 33 |
| 4.4.B | Student Consumer Information | 35 |
| 4.4.C | Entrance Counseling | 44 |
| 4.4.D | Exit Counseling | 46 |
| 4.4.E | Private Education Loan Information | 48 |
| 4.5 | Recordkeeping Requirements | 49 |
| 4.6 | Third-Party Servicers | 51 |
| 4.7 | Quality Assurance Program | 52 |
| 4.8 | Independent Audits | 52 |

This page intentionally left blank.

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 (PPA) 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, federal, or tribal licensing and/or authorization 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.
[§600.51(c)]

### State Authorization

In order to participate in Title IV programs, a school must be legally established by a state to provide postsecondary educational programs to students in the state. The state must have a process to review and appropriately act on complaints concerning the school including enforcing applicable state laws. State requirements are categorized by the Department on the basis of a school's authority to operate, as follows:

- *A school established by name by a state as a postsecondary educational institution.* A school is authorized if it is a public, nonprofit, or for-profit school established by a state and identified by name in a charter, statute, constitutional provision, or official action as an educational institution authorized to provide postsecondary educational programs, including programs leading to a degree or certificate.
[§600.9(a)(1)(i)(A)]
  - The school must comply with any applicable state approval or licensure requirements, unless the state exempts the school by name from any requirements based on the school's approval by a Department-recognized accrediting agency or based on the school being in operation for at least 20 years.
[§600.9(a)(1)(i)(B)]
- *A school established by a state on the basis of an authorization to conduct business.* This includes a for-profit school established by a state to conduct commerce or provide services. If the school is named as a school that is authorized to provide postsecondary educational programs, including programs leading to a degree or certificate, the school is authorized. If the school is not established by name to provide postsecondary educational programs, the school must be approved or licensed by name by a state to provide postsecondary programs, including programs leading to a degree or certificate. In this case, the school must comply with all applicable state approval or licensure requirements; there are no exemptions.
- *A school established by a state on the basis of an authorization to operate as a charitable organization.* This includes a nonprofit school established by a state to support the public interest or common good. If the school is named as an entity established to provide postsecondary educational programs, including programs leading to a degree or certificate, the school is authorized. If the school is not established by name to provide postsecondary educational programs, the school must be approved or licensed by name by a state to provide postsecondary programs, including programs leading to a degree or certificate. The school must comply with all applicable state approval or licensure requirements; there are no exemptions.
- *A religious institution exempted from state authorization by state constitution or law.* This includes a nonprofit postsecondary school that is owned, controlled, operated, and maintained by a religious organization lawfully operating as a nonprofit religious corporation. The school must award only religious degrees or certificates in order to be exempt from state approval or licensure requirements.

- *A school established by federal government or an Indian tribe.* A public, nonprofit, or for-profit school that is authorized by the federal government or an Indian tribe by name to provide postsecondary educational programs is exempt from state approval or licensure requirements. A federal school must comply with applicable federal requirements and laws. If a school is authorized by an Indian tribe, the school must be located on tribal lands and the tribal government must have a process to review and act on complaints regarding the school and to enforce applicable tribal requirements or laws.

If an institution offers postsecondary education through distance or correspondence education to students in a state in which it is not physically located as determined by the state, the institution must meet any state requirements for it to legally offer postsecondary distance or correspondence education in that state.
[§600.9]

## 4.1 School Eligibility

The following types of schools may apply for participation in the Title IV programs:

- Public or private nonprofit institutions of higher education.
  [§600.4; §600.9]

- Proprietary institutions (private and for-profit).
  [§600.5; §600.9]

- Public or private nonprofit postsecondary vocational institutions.
  [§600.6; §600.9]

In addition, a school's branch campus may seek designation as a main campus or freestanding institution if the branch campus has been in existence for at least two years following certification as a branch campus by the Department.
[§600.8]

## 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, in accordance with the procedures specified by the Department. These procedures are as follows:

- The school must submit an Application for Approval to Participate in the Federal Student Financial Aid Programs (E-App) to the Department to request a determination that it qualifies as an eligible institution.
  [§600.20(a); GEN-05-14]

- The school must include in the E-App a request for certification to participate in the program and must submit all the documentation indicated on that application. To be certified for participation, a school must meet the following standards:

  – The school must meet the qualifications of an eligible institution (see Section 4.1).

  – The school must meet administrative capability and financial responsibility requirements (see Sections 4.2 and 4.3).

  – If the school is participating for the first time in Title IV programs, and it has not requested and been granted a training waiver, designated school administrators defined by the Department must complete Title IV training within 12 months after the school executes the Program Participation Agreement (PPA). A school that is currently participating in some Title IV programs is not required to have certification training if it is only requesting approval to participate in additional Title IV programs.
    [§668.13(a)(2)]

By entering into a Program Participation Agreement (PPA), the school agrees to comply with all requirements specified in statute and federal regulations, including, but not limited to the following:

- 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.
  [§668.14(b)(3)]

- 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.
  [§668.14(b)(11)]

- The school will not certify a loan that exceeds the borrower's eligibility.
  [§668.14(b)(8)]

- Upon the request of an admitted or enrolled student, or the parent of an admitted or enrolled student who is a private education loan applicant, the school must provide the student or parent with both of the following:

  – The Department's approved Private Education Loan Applicant Self-Certification form.

  – The information necessary to complete the form, if the school possesses the information.

  In addition, at the request of the private education loan applicant, the school must discuss with the applicant the availability of federal, state, and institutional financial aid. For more information about the Private Education Loan Applicant Self-Certification form, see Subsection 4.4.E.
  [§601.11(d); §668.14(b)(29)]

- The school has developed and implemented written plans to effectively combat the unauthorized distribution of copyrighted material by users (e.g., students, employees, and the public, if applicable) of the school's information technology network that include all of the following:

  – The use of one or more technology-based deterrents. No particular technology measure(s) is favored or required for inclusion in the school's plans.

  – Mechanisms for educating and informing the school community about appropriate versus inappropriate use of copyrighted material, such as including pertinent information in required student consumer information disclosures (see Subsection 4.4.B), handbooks, honor codes, or codes of conduct.

  – Procedures for handling unauthorized distribution of copyrighted materials, including disciplinary procedures.

  – Procedures for periodically reviewing the effectiveness of the plans to combat the unauthorized distribution of copyrighted materials by users of the school's network, using relevant assessment criteria determined by the school.

  The school has the authority to determine its plans for compliance with the requirement to combat unauthorized distribution of copyrighted material, including a plan that prohibits content monitoring. A school is not required to take measures to effectively combat the unauthorized distribution of copyrighted material that would unduly interfere with the educational and research use of the school's network.

  In consultation with the school's chief technology officer or other designated school official, the school must, to the extent practicable, offer legal alternatives to illegal downloading or other acquisition of copyrighted material. The school must periodically review the legal alternatives that it offers for downloading or otherwise acquiring copyrighted materials and make the results of that review available to students through a Website or other means.
  [§668.14(b)(30)]

- The school will submit all required reports within the time frames specified.
  [§668.14(b)(7)]

- 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.
  [§668.14(b)(10)]

- The school will operate a drug abuse prevention program that is available to any officer, employee, or student of the school.
  [§668.14(c)(1)]

- A school located in a state not covered by section 4(b) of the National Voter Registration Act (commonly known as the Motor Voter Registration Act) must make a good faith effort to distribute a mail voter registration form to each enrolled student physically in attendance at the school and to make the forms widely available.

The school must request the voter registration forms from its state 120 days prior to the voter registration deadline. The school is not held liable for compliance with this requirement if the state does not provide a sufficient quantity of forms within 60 days prior to the voter registration deadline. This requirement includes elections for a state's governor or other chief executive, or for federal office elections. A school may also comply with this requirement by electronically transmitting a message to the student that is devoted exclusively to voter registration and that contains either of the following:

- A voter registration form acceptable for use in the state in which the school is located.
- An Internet address where such a form can be downloaded.

[HEA §487(a)(23)(D); §668.14(d)]

- The school will prepare a teach-out plan and submit it to the school's accrediting agency or association if any of the following occurs:
  - The Department initiates a limitation, suspension, termination, or emergency action (see Section 18.1).
  - The school's accrediting agency acts to withdraw, terminate, or suspend the accreditation or preaccreditation of the school.
  - The school's state licensing or authorizing agency revokes the school's license or legal authorization to provide an educational program.
  - The school intends to close a location that provides 100% of at least one program.
  - The school otherwise intends to cease operations.

  [§668.14(b)(31)]

- A school seeking to participate for the first time in the FFELP must use a default management plan approved by the Department for at least the first two years of its participation in the FFELP if the owner of the school owns or owned any other school that had a cohort default rate greater than 10%.
  [§668.14(b)(15)(A)]

- A school seeking to participate for the first time in a Title IV program must not have a withdrawal rate during its latest completed award year that exceeds 33% of its regular, undergraduate students. The school must include in its withdrawal calculation every regular student who was enrolled during the latest completed award year except a student who during that period meets both of the following criteria.
  - The student withdrew, dropped out, or was expelled from school.
    [§668.16(l)(1)]
  - The student was entitled to receive and did receive—in a timely manner—a refund of 100% of the tuition and fees.
    [§668.16(l)(2)]

- A FFELP-participating school undergoing a change of ownership that results in a change in control may be required to use a default management plan approved by the Department for at least the first two years following the change (see Subsection 4.1.C for more information).
  [§668.14(b)(15)(B); GEN-05-14]

- 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(b)(21)]

- The school will not provide any commission, bonus, or other incentive payment to a person or entity engaged in student recruitment, admission activities, or making decisions regarding the awarding of Title IV aid based in any part, directly or indirectly, upon the success of securing enrollments or the awarding of financial aid. (See subheading "Incentive Compensation" later in this subsection for more information, including a discussion of permissible activities that do not violate this provision.)
  [§668.14(b)(22)]

- The school will not request or accept from any lender any offer of funds to be used for private education loans, including funds from an opportunity pool, to students in exchange for the school providing concessions or promises to the lender, including the following:
  - A specified number of FFELP loans made, insured, or guaranteed.
  - A specified volume of FFELP loans.
  - A preferred lender arrangement for FFELP loans. [HEA §487(e)(5)]

- The school will develop, publish, administer, and enforce a school code of conduct that meets the minimum requirements described in Subsection 4.1.F. The code of conduct will apply to the school's officers, employees, and agents, and each institution-affiliated organization that has a preferred lender arrangement for the purpose of offering FFELP or private education loans. The school, and any institution-affiliated organizations that has a Website, must publish the code prominently on its Website. Also, the school must annually inform any of its officers, employees, and agents who have responsibilities with respect to education loans of the code's provisions. [HEA §151(5); HEA §487(a)(25); DCL GEN-08-12/FP-08-10]

- A proprietary institution will derive at least 10% of its revenue for each fiscal year from sources other than Title IV funds, as calculated according to the formula for determining non-Title IV revenue in §668.28, or be subject to sanctions (see Subsection 4.1.D).

The Department will notify a school in writing whether the school qualifies in whole or in part for participation in the Title IV programs. The Department also notifies the school of the Title IV programs in which it is eligible to participate. If only a portion of the school qualifies for participation in the Title IV programs, 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.

Prior to March 30, 2010, a school was permitted to participate in both the FFELP and the Federal Direct Loan Program (FDLP) simultaneously but was not permitted to certify a loan of the same type (either a Stafford loan or a PLUS loan) under both programs for the same borrower. The school was permitted to certify a Stafford loan under one program and a PLUS loan to benefit the same student under the other program for the same loan period.

For the period between March 30, 2010, and June 30, 2010, a school was permitted to certify for the same student or parent borrower loans of the same type—either Stafford or PLUS—under both the loan programs even if those loans were for the same period of enrollment.

#### Incentive Compensation

As a condition for a school to be eligible to participate in a Title IV program, it may not provide any commission, bonus, or other incentive payment to a person or entity engaged in student recruitment, admission activities, or making decisions regarding the awarding of Title IV aid based in any part, directly or indirectly, upon the success of securing enrollments or the awarding of financial aid. A commission, bonus, or other incentive payment is defined as a sum of money or something of value, other than a fixed salary or wages, paid to or given to a person or an entity for services rendered.

This prohibition not only applies to employees actually engaged in student recruitment, admission activities, and/or the awarding of Title IV aid, but also any higher level employees with responsibilities for those areas. This prohibition also applies to any applicable activities occurring throughout the completion of the educational program, not just to pre-enrollment activities. [§668.14(b)(22)(iii)]

The following types of compensatory situations would not be considered in violation of the incentive compensation prohibition:

- Incentive compensation for the recruitment of foreign students residing in foreign countries who are not eligible to receive federal student assistance. [§668.14(b)(22)(i)(A)]

- Merit-based adjustments to employee compensation as long as the adjustments are not based in any part, directly or indirectly, upon the success of securing enrollments or the awarding of financial aid.
  [§668.14(b)(22)(ii)(A)]

- Profit-sharing payments to any person not engaged in student recruitment or admission activities or in making decisions regarding the awarding of Title IV aid.
  [§668.14(b)(22)(ii)(B)]

- Payments to a third party solely for prospective student contact information as long as it is not based on any additional conduct or action by the third party or the prospective students, or on the number of students who apply, enroll, or are awarded financial aid.
  [§668.14(b)(22)(iii)(B)(2)]

## 4.1.B
## Written Agreements between Schools

Two or more eligible schools or, except in the case of an eligible foreign school, an eligible and an ineligible school or organization may enter into a written agreement in which one school agrees to have all or a portion of its educational program provided at or by the other school(s). Such an agreement typically falls into one of two general categories: consortium agreements between eligible schools and contractual agreements between an eligible school(s) and an ineligible school(s) or organization(s).

In addition, a school may enter into a single written agreement with a study-abroad organization that represents one or more foreign schools rather than a separate agreement with each individual foreign school that its students attend.
[§668.5]

A student may take courses at a school that is party to the agreement 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 is certified as eligible for Title IV aid.

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.

### Agreement between Two or More Eligible Schools

If the written agreement (consortium agreement) is between two or more eligible schools owned or controlled by the same individual, partnership, or corporation, the educational programs offered under that agreement are considered eligible programs if the programs meet all other eligibility requirements (see Subsection 4.1.A), and the school that grants the degree or certificate provides more than 50% of the educational program.
[§668.5]

### Agreement between an Eligible School and an Ineligible School or Organization

If an eligible school enters into a written agreement (contractual agreement) with an ineligible school or organization, the agreement must meet at least one of the following criteria:

- The contracted portion of the program provided by the ineligible school or organization must not exceed 25% of the student's program of study.
  [§668.5(c)(3)(i)]

- The contracted portion of the program must not exceed 50% of the total program of study if the ineligible school or organization 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.
  [§668.5(c)(3)(ii)(A) - (C)]

Also, the ineligible school must not have:

- Been terminated from participation in Title IV programs.

- Withdrawn from participation in Title IV programs under a termination, show-cause, suspension, or similar proceeding.

- Had its participation agreement revoked by the Secretary.

- Had its initial certification application or its application for re-certification to participate in Title IV programs denied.
  [§668.5(c)(1)]

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, postsecondary 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, processing refunds, and completing the calculations for the return of Title IV funds also should be included in the agreement. The school that the student pays is responsible for issuing refunds and returning Title IV funds to the appropriate Title IV loan and grant programs. Additional information on written agreements between schools can be found in 34 CFR 668.5(d) and in the 09-10 FSA Handbook, Volume 2, Chapter 7, pp. 2-95 to 2-98.

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.

## 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 18).

### Reporting Requirements

The school must report to the Department certain specific information regarding its ownership, contact information, the addition of locations, programs of study, the structure of its programs of study, etc.

*General Reporting Requirements*

A school must report to the Department via the Application for Approval to Participate in the Federal Student Financial Aid Programs (E-App) and report in writing to each applicable guarantor no later than 10 days after any of the following occurs:

- The school undergoes a change in the person(s) exercising substantial control or the person designated as its Title IV program administrator.
  [§600.21(a)(6) and (7)]

- 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.
  [§600.21(a)(1) and (2)]

- The school establishes or closes a location of the school at which it offers at least 50% of an educational program. (See subheading "School and Program Eligibility at Additional Locations" later in this subsection.)
  [§600.21(a)(3) and (8)]

- The school decreases its level of program offerings (e.g., drops graduate programs).
  [§600.21(a)(5)]

- The school changes the way it measures program length (such as changing from clock hours to credit hours).
  [§600.21(a)(4)]

- A public school undergoes a change in governance. (See subheading "Change in Governance for a Public School" later in this subsection.)
  [§600.21(a)(9)]

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.
[§600.21(c)]

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.
[§600.21(e)]

*Gainful Employment Reporting*

The Department requires reporting of gainful employment data for the following types of programs:

- Any program offered by a postsecondary vocational institution.
- Any program offered by a proprietary institution, with the exception of a liberal arts baccalaureate program.
- Any program offered by an institution of higher education that:
  - Is at least one academic year in length.
  - Leads to a certificate or other non-degree recognized credential.
  - Prepares students for gainful employment in a recognized occupation.

For each student enrolled in such a program, the school must report the following:

- Information needed to identify the student and the school the student attended.
- If the student began attending a program during the award year, the name and the Classification of Instructional Program (CIP) code of that program.

If the student completed a program during the award year, the school also must report all of the following:

- The name and CIP code of that program, and the date the student completed the program.
- The amounts the student received from private education loans and the amount from the school's own financing plans that the student owes the school upon completing the program.
- Whether the student matriculated to a higher credentialed program at the school or, if available, evidence that the student transferred to a higher credentialed program at another school.

[§668.6(a)(1)]

For each program for which gainful employment data reporting is required, the school must report, by name and CIP code, the total number of students enrolled in the program at the end of each award year and identifying information for those students.

A school must provide the required gainful employment data to the Department, as follows:

- No later than October 1, 2011, for information from the 2006-07 award year to the extent that the information is available.
- No later than October 1, 2011, for information from the 2007-08 through 2009-10 award years.
- No earlier than September 30, but no later than the date established by the Department through a notice published in the *Federal Register,* for information from the most recently completed award year.

For any award year, if a school is unable to provide all or some of the required information, the school must provide an explanation of why the missing information is not available.
[§668.6(a)(2)]

*Change of Ownership or Status*

If a school experiences a change in ownership that results in a change in control, and a training waiver has not been requested and granted, designated school administrators defined by the Department must complete Title IV training within 12 months after the school executes the Program Participation Agreement (PPA).
[§668.13(a)(2)]

When a private nonprofit, private for-profit, or public school experiences a change of ownership that results in a change of control or a school changes status as a nonprofit, for-profit, or public school, the school's PPA with the Department expires immediately. Such schools cease to qualify as eligible schools for participation in Title IV programs and, unless the Department issues a provisional extension of certification as described below, may not disburse Title IV funds until eligibility has been reestablished.
[§600.20(b)(2)(ii) and (iii); §600.20(f)(2); §600.31]

To continue eligibility to participate in Title IV programs, a school experiencing such a change in ownership or status must submit an E-App so that it is received by the Department no later than 10 business days after the change. The application must include the following documentation:
[§600.20(g)(1)]

- Any required and fully completed Department forms.
  [§600.20(g)(2)]

- Required documentation of state, federal, or tribal licensing, and/or authorization.
  [§600.9; §600.20(g)(2)(i)]

- Required documentation of accrediting agency approval.
  [§600.20(g)(2)(ii)]

- Audited financial statements of the school's two most recently completed fiscal years.
  [§600.20(g)(2)(iii)]

- Audited financial statements of the new owner's two most recently completed fiscal years or equivalent information for the new owner that is acceptable to the Department.
  [§600.20(g)(2)(iv)]

If the Department approves a provisional PPA for the school, the provisional PPA extends the terms and conditions of the PPA that were in effect for the school before the change. The provisional PPA expires on the earlier of:

- The date on which a new PPA is signed with the Department.
  [§600.20(h)(2)(i)]

- The date on which the school is notified by the Department that its application is denied.
  [§600.20(h)(2)(ii)]

- The last day of the month following the month in which a change of ownership occurred, unless the Department extends the provisional PPA on a month-to-month basis, based on criteria described below.
  [§600.20(h)(2)(iii)]

The Department will extend the provisional PPA on a month-to-month basis if, prior to the expiration date, the school provides the Department with the following:

- A "same day" balance sheet that shows the school's financial position as of the date of the ownership change, prepared in accordance with Generally Accepted Accounting Principles (GAAP) and Generally Accepted Government Auditing Standards (GAGAS), as published by the U.S. General Accounting Office.
  [§600.20(h)(3)(i)]

- Documentation of state, federal, or tribal licensing and/or authorization, if not already provided.
  [§600.9; §600.20(h)(3)(ii)]

- Documentation of accrediting agency approval, stating that accreditation is continued under the change, if not already provided.
  [§600.20(h)(3)(iii)]

- A default management plan, unless the school is exempt from providing the plan.
  [§600.20(h)(3)(iv); §668.14(b)(15); GEN-05-14]

In addition to reestablishing or continuing eligibility with the Department, the school will also be required to reestablish eligibility with each applicable guarantor.

*Change in Governance for a Public School*

No later than 10 days after a change in governance, a public school must report the change to the Department and each applicable guarantor. A change in governance for a public school is not considered to be a change of ownership that results in a change in control, if the school remains a public school after the change and the new governing authority is in the same state and has acknowledged the school's continued responsibilities under its PPA.
[§600.21(a)(9); §600.31(c)(7)]

**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. [§600.20(d)(1)(i)]

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 an accrediting agency recognized by the Department for Title IV program approval purposes.

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 if the new program leads to an associate, bachelor's, professional, or graduate degree, and the Department has already approved the school for programs at that level. [§600.10(c)(1)]

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. [§600.10(c)(3)]

*New Programs for Gainful Employment in a Recognized Occupation*

A school must notify the Department at least 90 days before the first day of class when it intends to add an educational program that prepares students for gainful employment in a recognized occupation, as defined earlier in this subsection. An "additional" educational program for this purpose is one of the following:

- A program with a CIP code under the taxonomy of instructional program classifications and descriptions developed by the Department's National Center for Education Statistics that is different from any other program offered by the school.
- A program that has the same CIP code as another program offered by the school but leads to a different degree or certificate.
- A program that the school's accrediting agency determines to be an additional program.

[§600.10(c)(1) and (2); §600.20(d)(1)(ii)(A)]

A school's notice to the Department of the school's intent to offer an additional educational program that prepares students for gainful employment must provide all of the following:

- A description of how the school determined the need for the program and how the program was designed to meet local market needs, or for an online program, regional or national market needs. This description must contain any wage analysis the school may have performed, including any consideration of Bureau of Labor Statistics data related to the program.
- A description of how the program was reviewed or approved by, or developed in conjunction with, business advisory committees, program integrity boards, public or private oversight or regulatory agencies, and businesses that would likely employ graduates of the program.
- Documentation that the program has been approved by its accrediting agency or is otherwise included in the school's accreditation by its accrediting agency, or comparable documentation if the school is a public postsecondary vocational school approved by a recognized state agency for the approval of public postsecondary vocational education in lieu of accreditation.
- The date of the first day of class of the new program.

[§600.20(d)(2)]

The school may proceed to offer the program described in its notice, unless the Department advises the school at least 30 days before the first day of class that the program must be approved. A school that does not provide a timely notice to the Department must obtain approval for the new program. [§600.20(d)(1)(ii)(B) and (C)]

**Eligible Programs**

To qualify as a school that is eligible to participate in the Title IV programs, the school must offer at least one eligible program, although not all programs that the school offers may be eligible. A school may offer programs that meet different eligible-program definitions.

A school may use direct assessment instead of credit hours or clock hours, as a measure of student learning. The assessment must be consistent with the school's or program's accreditation. The Department must determine whether such a program is an eligible program for Title IV purposes.
[HEA §481(b)(4); DCL GEN-06-05]

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 Section 6.1), and must offer one or more of the following:

- A program that leads to an associate, bachelor's, professional, or graduate degree.
  [§668.8(c)(1)]

- A program of at least two academic years in duration that is acceptable for full credit toward a bachelor's degree.
  [§668.8(c)(2)]

- A program of at least one 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.
  [§668.8(c)(3)]

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.
  [§668.8(d)(1)]

- 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.
  [§668.8(d)(2)]

- 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 the 09-10 FSA Handbook, Volume 2, Chapter 2, p. 2-13, and §668.8(c) through (g) for more information on completion rate and placement rate calculations.)
  [§668.8(d)(3)]

The above 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 Section 6.2 for determining the period of enrollment). A "week of instruction" is any period of 7 consecutive days in which the school provides for at least one day of regularly scheduled instruction, examinations, or preparation for final examinations. Any time frame allotted to preparation for final examinations must occur after the last scheduled day of classes for the term or payment period. Instructional time does not include periods of orientation, counseling, vacation, or homework.
[§668.3(b); §668.8(b)(2) and (3)]

A program offered by a proprietary institution and leading to a baccalaureate degree in liberal arts is also an eligible program if the school has provided the program continuously since January 1, 2009, and if the school has been continuously accredited by a recognized regional accrediting agency or association since October 1, 2007, or earlier. The baccalaureate degree in liberal arts must be a regular program that the proprietary institution's recognized regional accreditation agency or organization determined to be a general instructional program in the liberal arts subjects, the humanities disciplines, or the general curriculum, falling within one or more of the following instructional categories:

- A program that is a structured combination of the arts, biological and physical sciences, social sciences, and humanities that emphasizes a breadth of study.
- An undifferentiated program that includes instruction in the general arts or general science.
- A program that focuses on combined studies and research in the humanities emphasizing languages, literatures, art, music, philosophy, and religion.
- Any single instructional program in liberal arts and sciences, general studies, and humanities not listed above.

Independently-designed, individualized, and unstructured programs and studies in the liberal arts offered by proprietary schools are not eligible.
[§600.5(e); §668.8(d)(4)]

### Eligibility of Gainful Employment Programs

A gainful employment (GE) program must meet minimum standards to demonstrate that it sufficiently prepares its students for gainful employment in a recognized occupation. GE programs are evaluated annually based on a fiscal year (FY) from October 1 through September 30 designated by the calendar year in which it ends. For example, FY 2013 is from October 1, 2012, to September 30, 2013.

The Department evaluates a GE program using two debt measures—the loan repayment rate and debt-to-earnings ratios. A program must meet at least one of the three following thresholds or it will be a failing program:

- The program's annual loan repayment rate is 35% or greater.
- The program's annual loan payment is 30% or less of discretionary income.
- The program's annual loan payment is 12% or less of average annual earnings.

[§668.7(a)(1)(i) and (ii); §668.7(a)(2)(iii)]

A program is considered satisfactory if either of the following applies:

- The data needed to determine whether a program satisfies these minimum standards are not available to the Department.
- There are 30 or fewer borrowers whose loans entered repayment or 30 or fewer students who completed the program in the most recent FY that is evaluated. (See *Debt-to-Earnings Ratios*)

[§668.7(a)(1)(iii); §668.7(d)]

*Loan Repayment Rate*

The loan repayment rate is used to determine if former students (both those who completed the program and those who did not complete the program) who entered repayment succeed in paying down the balance of their FFELP and Direct loans by at least one dollar during the most recently completed FY that is evaluated. A program satisfies this measure if the program's annual loan repayment rate is 35% or greater.

Definitions applicable to the loan repayment rate include the following:

- *Original Outstanding Principal Balance (OOPB)* is the amount of the outstanding balance, including capitalized interest, on FFEL and Direct loans owed by students for attendance in the program on the date those loans first entered repayment. Parent PLUS loans and Teach Grant-related loans are excluded. For Consolidation loans, the OOPB includes only the loans attributable to a borrower's attendance in the program.
  [§668.7(b)(1)]
- *Loans Paid in Full (LPF)* are loans that have never been in default, or in the case of a Consolidation loan, neither the Consolidation loan nor the underlying loan(s) have ever been in default and have been paid in full by a borrower. A loan that is paid in full by a Consolidation loan is not counted as paid in full for this purpose.
  [§668.7(b)(2)]

- *Payments-Made Loans (PML)* are loans that have never been in default (in the case of a Consolidation Loan, neither the Consolidation loan nor the underlying loan(s) have ever been in default), where payments made by a borrower during the most recently completed FY reduce the outstanding balance by the end of that FY (including accrued, non-capitalized interest) to an amount that is at least one dollar less than the outstanding balance of the loan at the beginning of that FY.
  [*Federal Register* dated June 13, 2011, p. 34400]

  For a Consolidation loan that paid loans for a post-baccalaureate certificate or master's, doctoral, or first-professional degree program, the total outstanding balance (including accrued, non-capitalized interest) at the end of the most recent FY may be *less than or equal* to the total outstanding balance at the beginning of the year.

  PML includes a loan(s) for a borrower in the process of qualifying for Public Service Loan Forgiveness who submits an employment certification to the Department. The employment certification must demonstrate the borrower is engaged in qualifying employment. The borrower must have made qualifying payments on the loan during the most recently completed FY, even if the payments did not reduce the principal balance.

  PML also includes loans for a borrower in the income-based, income-contingent, or any other repayment plan that makes scheduled payments on the loan during the most recently completed FY for an amount that is equal to or less than the interest that accrues on the loan during the FY. However, the Department limits the dollar amount of these interest-only or negative amortization loans in the numerator of the ratio to no more than 3% of the total amount of OOPB in the denominator.
  [§668.7(b)(3)]

Generally, borrowers who are included in the loan repayment rate are those who entered repayment on their applicable loans during the third and fourth FYs prior to the most recently completed FY for which the debt measures are calculated (2YP). For example, for FY 2012, the 2YP is FY 2008 and FY 2009.
[§668.7(a)(2)(iv)(A)(1)]

However, for FY 2012, FY 2013, and FY 2014, the first and second FYs (2YP-A) prior to the most recently completed FY for which the loan repayment rate is calculated, will be used as an alternate method to calculate the rate. For example, if the most recently completed FY is 2012, the 2YP-A is FY 2010 and FY 2011. The Department will calculate the loan repayment rate using two loan repayment rates for a program—one with the 2YP and the other with the 2YP-A, provided that the 2YP-A represents more than 30 borrowers whose loans entered repayment. If both loan repayment rates are calculated, the Department will use the highest rate to make a determination of whether the programs meet the required minimum standard.
[§668.7(a)(2)(iv)(A)(2) and §668.7(b)(1)(iv)]

If a program has 30 or fewer borrowers who entered repayment during the 2YP, the period is extended to include the fifth and sixth prior FYs to include additional borrowers who entered loan repayment during a 4 year period (4YP). For example, for FY2012, the 4YP is FY 2006, FY 2007, FY 2008, and FY 2009.
[§668.7(a)(2)(v); §668.7(d)]

For a medical or dental program with a required residency or internship, the 2YP is adjusted to include the sixth and seventh FYs (2YP-R) prior to the most recently completed FY for which the debt measures are calculated. For example, for FY 2012, the 2YP-R is FY 2005 and FY 2006. Also, the 4YP is adjusted to include the sixth, seventh, eighth, and ninth FYs (4YP-R) prior to the most recently completed FY for which the debt measures are calculated. For example, for FY 2017, the 4YP-R is FY 2008, FY 2009, FY 2010, and FY 2011. For these purposes, a required medical or dental internship or residency is a supervised training program that meets all of the following requirements:

- Requires the student to hold a degree as a doctor of medicine or osteopathy, or a doctor of dental science.
- Leads to a degree or certificate awarded by a school of higher education, a hospital, or a health care facility that offers post-graduate training.
- Must be completed before the borrower may be licensed by the state and board certified for professional practice or service.

[§668.7(a)(2)(iv)(B); §668.7(a)(2)(v)(B)]

For the most recently completed FY, the Department calculates the loan repayment rate for a program annually using the following ratio:

$$\frac{\text{OOPB of LPF + OOPB of PML}}{\text{OOPB of all included loans borrowed by students to enroll in the program}}$$

[§668.7(b)]

For the most recently completed FY, the OOPB in the numerator and the denominator excludes loans that were in any of the following statuses:

- An in-school deferment during any part of the FY.
- A military-related deferment status during any part of the FY.
- Discharged as a result of the borrower's death.
- Discharged as a result of the borrower's total and permanent disability (TPD) or pending TPD discharge.

[§668.7(b)(4)]

*Debt-to-Earnings Ratios*

Debt-to-earnings ratios are used to determine the portion of a typical graduate's (completer's) annual earnings or discretionary income that is consumed by repayment of educational debt incurred to attend a particular GE program. A program satisfies these measures if a typical completer's annual loan payment represents 30% or less of discretionary income, or 12% or less of average annual earnings.

The discretionary income rate calculation is:

$$\frac{\text{Annual loan payment}}{\text{Higher of the mean or median annual earnings — 150\% of poverty guideline for a family of one}}$$

[§668.7(c)(1)(i)]

The earnings rate calculation is:

$$\frac{\text{Annual loan payment}}{\text{Higher of the mean or median annual earnings}}$$

[§668.7(c)(1)(ii)]

The Department determines the annual loan payment for a program by calculating the median loan debt of the program for each student who completed the program during the 2YP, the 2YP-R, the 4YP, or the 4YP-R. The loan debt includes FFEL and Direct loans (except parent PLUS loans and Teach Grant-related loans) and any private education loans or debt obligations from school financing plans owed by the student for attendance in a program. However, if the school provides tuition and fee information, the Department will use the total amount of tuition and fees charged to the student for enrollment in all programs at the school if that amount is less than the total loan debt that the student incurred.
[§668.7(c)(2), (3) and (4)(i)]

To determine the loan debt for a student, the Department includes all the loan debt incurred by the student for attendance in programs at the school to the highest credentialed program subsequently completed by the student at the school. Although loan debt incurred by the student for attendance in programs at other schools is not included in the student's loan debt, the Department may include loan debt incurred by the student for attending other schools if the school and other school(s) are under common ownership or control.
[§668.7(c)(4)(ii) and (iii)]

The Department uses the median loan debt for the program and the current annual interest rate on Direct Unsubsidized loans to calculate the annual loan payment based on the following:

- A 10-year repayment schedule for a program that leads to an undergraduate or post-baccalaureate certificate or to an associate's degree.
- A 15-year repayment schedule for a program that leads to a bachelor's or master's degree.
- A 20-year repayment schedule for a program that leads to a doctoral or first-professional degree.

[§668.7(c)(2)(ii)]

To determine the annual earnings of the borrower, the Department obtains from the Social Security Administration (SSA), or other Federal agency, the most currently available mean and median annual earnings of the students who completed the program during the 2YP, the 2YP-R, the 4YP, or the 4YP-R. The Department calculates the debt-to-earnings ratios using the higher of the mean or median annual earnings.
[§668.7(c)(3)]

For the FY that debt-to-earnings ratios are calculated, the following students are excluded if:

- The student's loan(s) was in a military-related deferment at any time during the calendar year for which earnings are obtained.
- The student died.
- The student was enrolled in any other eligible program at the school or at another school during the calendar year for which the earnings information is gathered.

- The student's loan(s) was discharged as a result of total and permanent disability (TPD) or is pending TPD discharge.

[§668.7(c)(5)]

A program automatically satisfies the debt-to-earnings measures if any one of the following applies:

- A program has 30 or fewer students who entered repayment or completed the program, during the 2YP or 2YP-R, and the 4YP or 4YP-R.

- SSA did not provide the mean and median earnings for the programs.

- The median loan debt calculated is zero.

[§668.7(d)]

*Debt Measures and Data Corrections*

Before issuing the draft results of the debt-to-earnings ratios for a program, the Department provides to a school a list of the students who will be included in the applicable 2YP or 4YP for calculating the ratios. No later than 30 days after the date the Department provides the list, the school may provide evidence showing that a student should be included on or removed from the list and the school may correct or update the identity information provided for a student on the list, such as name, Social Security number, or date of birth. After the 30-day correction period, the school may no longer challenge whether students should be included on the list or update the identity information of those students.
[§668.7(e)(1)(i) and (ii)]

The Department makes applicable changes that result from the information provided by a school and creates a final list of students to submit to the SSA. The Department calculates the draft debt-to-earnings ratios based on the mean and median earnings provided by the SSA for the students on the final list. A school may not challenge the mean and median annual earnings that SSA provides to the Department. However, a school may demonstrate that a failing program would meet a debt-to-earnings standard by recalculating the debt-to-earnings ratios using the median loan debt for the program and alternative earnings (see *Final Debt Measures and Alternative Earnings Recalculations*).
[§668.7(e)(1)(iii) and (iv)]

No later than 45 days after the Department issues the draft results of the debt-to-earnings ratios for a program and no later than 45 days after the Department issues the draft results of the loan repayment rate for a program, respectively, a school may challenge the accuracy of the loan data for a borrower that was used to calculate the draft loan repayment rate, or the mean loan debt for the program that was used for the numerator of the draft debt-to-earnings ratios, by submitting evidence showing that the borrower loan data or the program median loan debt is inaccurate. The school may also challenge the accuracy of the list of borrowers included in the applicable 2YP or 4YP used to calculate the draft loan repayment rate by submitting evidence showing that a borrower should be included on or removed from the list or correcting or updating the identity information provided for a borrower on the list.
[§668.7(e)(2)]

For debt measures in general, if the information provided by a school is accurate, the Department uses the corrected information to recalculate the debt measures for the program. For a failing program, if the SSA is unable to include in its calculation of the mean and median earnings for the program, for one or more students on the final list, the Department adjusts the median loan debt by removing the highest loan debt associated with the number of students the SSA is unable to include in its calculation. For example, if the SSA is unable to include three students in its calculation, the Department removes the loan debt for the same number of students on the list that had the highest loan debt. The Department then recalculates the debt-to-earnings ratios for the program based on the adjusted median loan debt.
[§668.7(e)(3)]

*Final Debt Measures and Alternative Earnings Recalculations*

The Department notifies the school of the final debt measures for the program. A school may demonstrate that a failing program would meet a debt-to-earnings standard by recalculating the debt-to-earnings ratios using the median loan debt for the program and alternative earnings from either a state-sponsored data system, a school survey conducted in accordance with National Center for Educational Statistics (NCES) standards, or, for FY 2012, FY 2013, and FY 2014, the Bureau of Labor Statistics (BLS). Alternative earnings are described below.
[§668.7(f); §668.7(g)(1)]

State Data

For final debt-to-earnings ratios, a school may use state data to recalculate those ratios for a failing program only if one of the following applies:

- The school obtains earnings data from state-sponsored data systems for more than 50% of the students in the applicable 2YP or 4YP, or a comparable two- or four-year period, and that number of students is more than 30.

- The school uses the actual, state-derived mean or median earnings of the students in the applicable 2YP or 4YP, or a comparable two- or four-year period, and the school demonstrates that it accurately used the actual state-derived data to recalculate the ratios. [§668.7(g)(2)]

Survey Data

For final debt-to-earnings ratios, a school may use survey data to recalculate those ratios for a failing program only if the school uses reported earnings obtained from a school survey conducted of the students in the applicable 2YP or 4YP, or a comparable two- or four-year period, and the survey data is for more than 30 students. The school may use the mean or median annual earnings derived from the survey data if it submits a copy of the survey and certifies that it was conducted in accordance with the statistical standards and procedures established by NCES and submits an examination-level attestation by an independent public accountant or independent governmental auditor, as appropriate, that the survey was conducted in accordance with the specified NCES standards and procedures. The attestation must be conducted in accordance with the general, field work, and reporting standards for attestation engagements contained in the Government Accounting Office's (GAO) *Government Auditing Standards,* and with procedures for attestations contained in guides developed by and available from the Department's Office of Inspector General.
[§668.7(g)(3)]

Bureau of Labor Statistics (BLS) Data

For the final debt-to-earnings ratios calculated by the Department for FY 2012, FY 2013, and FY 2014, a school may use BLS earnings data to recalculate those ratios for a failing program only if the school identifies and provides documentation of the occupation by Standard Occupational Classification (SOC) code, or combination of SOC codes, in which more than 50% of the students in the 2YP or 4YP were placed or found employment, and that number of students is more than 30. The school may use placement records it maintains to satisfy accrediting agency or state requirements if those records indicate the occupation in which the student was placed. Otherwise, the school must submit employment records or other documentation showing the SOC code(s) in which the students typically found employment.

The school uses the most current BLS earnings data for the identified SOC code to calculate the debt-to-earnings ratio. If more than one SOC code is identified the school must calculate the weighted average earnings of those SOC codes based on BLS employment data or school placement data. In either case, the school must use BLS earnings at no higher than the 25th percentile. The school must submit, upon request, all the placement, employment, and other records maintained by the school for the program that the school examined to determine whether those records identified the SOC codes for the students who were placed or found employment.
[§668.7(g)(4)]

*Alternative Earnings Process*

A school must notify the Department of its intent to use alternative earnings no later than 14 days after the date the school is notified of its final debt measures. The school must submit all supporting documentation related to recalculating the debt-to-earnings ratios using alternative earnings no later than 60 days after the date the school is notified of its final debt measures. Pending the Department's review of the school's submission, the school is not subject to the requirements arising from the program's failure to satisfy the debt measures, provided the submission was complete, timely, and accurate.
[§668.7(g)(5)(i)]

If the Department denies the school's submission, the Department notifies the school of the reasons for the denial and the debt measures become the final measures for that FY. If the Department approves the school's submission, the recalculated debt-to-earnings ratios become final for that FY.
[§668.7(g)(5)(iii)]

*Dissemination of Final Debt Measures*

After the Department calculates the final debt measures, including the recalculated debt-to-earnings ratios, and provides those debt measures to a school, the school must disclose for each of its programs, the final loan repayment rate and final debt-to-earnings ratio.

The Department may disseminate the final debt measures and information about or related to the debt measures to the public at any time or in any manner and form, including publishing information that will allow the public to ascertain how well programs perform under the debt measures and other appropriate objective metrics. [§668.7(g)(6)]

### Gainful Employment Debt Measure Warnings and Sanctions

Except for programs that have a small number of students, a program fails for a fiscal year (FY) if its final debt measures do not meet any of the minimum standards. The Department provides a transition year for the purposes of the debt measure warnings and sanctions for programs that become ineligible based on final debt measures for FY 2012, FY 2013, and FY 2014. For this period only, the Department caps the number of those ineligible programs by sorting all programs by category of school (public, private nonprofit, and proprietary) and then by loan repayment rate, from the lowest rate to the highest rate. For each category of schools, beginning with the ineligible program with the lowest loan repayment rate, the Department identifies the ineligible programs that account for a combined number of students who completed the programs during FY 2014 that do not exceed 5% of the total number of students who completed programs in that category. For example, the Department does not designate as ineligible a program, or two or more programs, that have the same loan repayment rate, if the total number of students who completed that program or programs would exceed the 5% cap for a school category. [§668.7(k)]

Starting with the debt measures calculated for FY 2012, a failing program becomes ineligible if it does not meet any of the minimum standards for 3 out of the 4 most recent FYs. The Department notifies the school that the program is ineligible and the school may no longer disburse Title IV aid to students enrolled in that program except under the conditions discussed below. [§668.7(h)(i)]

A school may use funds that it has received under the Federal Pell Grant Program or TEACH Grant Program, or a campus-based program, or request additional funds from the Department, under conditions specified by the Department, if the school does not possess sufficient funds, to satisfy any unpaid commitment made to a student under that Title IV program only if all of the following apply:

- The school's participation in that Title IV program ends during a payment period.
- The school continues to provide, from the date that the participation ends until the scheduled completion date of that payment period, educational programs to otherwise eligible students enrolled in the formerly eligible programs of the school.
- The commitment was made prior to the end of the participation.
- The commitment was made for attendance during that payment period or a previously completed payment period.

[§668.26(d)(1)]

A school may use funds that it has received under the Federal Direct Loan Program (FDLP) or request additional funds from the Department, under conditions specified by the Department, if the school does not possess sufficient funds, to credit to a student's account or disburse to the student the proceeds of a FDLP loan only if all of the following apply:

- The school's participation in the FDLP ends during a period of enrollment.
- 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 formerly eligible programs of the school.
- The loan was made for attendance during that period of enrollment.
- The proceeds of the first disbursement of the loan were delivered to the student or credited to the student's account prior to the end of the participation.

[§668.26(d)(3)]

*First-Year Failure*

When the Department notifies a school of a failing program, the school must warn currently enrolled students as soon as administratively feasible, but no later than 30 days after the date the Department notifies the school that the program failed. The school must warn a prospective student at the time the student first contacts the school requesting information about the program. If the prospective student intends to use Title IV aid to attend the program, the school may not enroll the student until 3 days after the debt warnings are first provided to the student. If more than 30 days pass from the date the debt warnings are first provided to the student and the date the student

seeks to enroll in the program, the school must provide the debt warnings again and may not enroll the student until three days after the debt warnings are most recently provided to the student.
[§668.7(j)(3)]

For a failing program that does not meet the minimum standards for a single FY, the school's warning must be in plain language and provided in an easy to understand format. The warning must:

- Explain the debt measures and show the amount by which the program did not meet the minimum standards.
- Describe any actions the school plans to take to improve the program's performance under the debt measures.
- Be delivered orally or in writing directly to the student in accordance with the procedures established by the school. Delivering the debt warning directly to the student includes communicating with the student face-to-face or by telephone, communicating with the student along with other affected students as part of a group presentation, and sending the warning to the student's e-mail address.
  - If a school opts to deliver the warning orally to a student, it must maintain documentation of how that information was provided, including any materials the school used to deliver that warning and any documentation of the student's presence at the time of the warning.
  - A school must continue to provide the debt warning until it is notified by the Department that the failing program now satisfies one of the minimum standards.

  [§668.7(j)(1)]

To the extent practicable, the school must provide alternatives to English-language warnings for those students for whom English is not their first language.
[§668.7(j)(6)]

*Second-Year Failure*

For a failing program that does not meet the minimum standards for two consecutive FYs or for 2 out of the 3 most recently completed FYs, the school must do the following:

- Provide the debt warning as described above for a single year failure except that the school will describe what actions it will take in response to the second failure.
- If the school plans to discontinue the program, it must provide the timeline for doing so, and the options available to the student.
- A plain language explanation of the risks associated with enrolling or continuing in the program, including the potential consequences for, and options available to, the student if the program becomes ineligible for Title IV aid.
- A plain language explanation of the resources available, including www.collegenavigator.gov, that the student may use to research other educational options and compare program costs.
- A clear and conspicuous statement that a student who enrolls or continues in the program should expect to have difficulty repaying his or her student loans.
- A school must continue to provide this warning to enrolled and prospective students until the program has met one of the minimum standards for two of the last three FYs.
- Prominently display the debt warning on the program home page of its Web site and include the debt warning in all promotional materials it makes available to prospective students.
- A school that voluntarily discontinues a failing program must notify enrolled students at the same time that it provides the written notice to the Department that it relinquishes the program's Title IV program eligibility.

[§668.7(j)(2), (4), and (5)]

*Restrictions for Ineligible and Voluntarily Discontinued Failing Programs*

An ineligible program, or a failing program that a school voluntarily discontinues, remains ineligible until the school reestablishes the eligibility of that program under 34 CFR 600.20(d). For this purpose, a school voluntarily discontinues a failing program on the date the school provides written notice to the Department that it relinquishes the Title IV program eligibility of that program. A school may not reestablish the eligibility of a failing program that it voluntarily discontinued until one of the following occurs:

- The end of the second FY following the FY the program was voluntarily discontinued if the school voluntarily discontinued the program at any time after the program is determined to be a failing program, but no later than 90 days after the date the Department notified the school that it must provide the second year debt warnings.

- The end of the third FY following the FY the program was voluntarily discontinued if the school voluntarily discontinued the program more than 90 days after the date the Department notified the school that it must provide the second year debt warnings.

A school may not seek to reestablish the eligibility of an ineligible program, or to establish the eligibility of a program that is substantially similar to the ineligible program, until the end of the third FY following the FY the program became ineligible. A program is substantially similar to the ineligible program if it has the same credential level and the same first four digits of the Classification of Instructional Program (CIP) code as that of the ineligible program.
[§668.7(l)]

### 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).
  [§668.8(k)(1)]

- 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.
  [§668.8(k)(2)]

- 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.
  [§668.9(b)]

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.

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*

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

[§668.8(l)]

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.
[DCL GEN-95-38; 09-10 FSA Handbook, Volume 2, Chapter 2, pp. 2-17 to 2-18]

### 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 licensed and accredited location that offers at least 50% of an educational program, the school must report specific information to the Department by submitting an E-App and other required documentation. Further information on these requirements can be found in §600.20 and in the 09-10 FSA Handbook, Volume 2, Chapter 5, pp. 2-63 to 2-64. Generally, after reporting to the Department, a school may immediately deliver Title IV funds to eligible students attending the added location. However, a school must have approval from the Department before it can deliver Title IV funds to eligible students attending the added location if any of the following criteria applies:

- The school is provisionally certified.
  [§600.20(c)(1)(i)]

- The school is on the reimbursement or cash monitoring system of payment.
  [§600.20(c)(1)(ii)]

- The school has acquired the assets of another school that provided educational programs at that location during the preceding year, and the other school participated in Title IV programs during that year.
  [§600.20(c)(1)(iii)]

- The school would be subject to a loss of eligibility due to its cohort default rate if it adds the location.
  [§600.20(c)(1)(iv)]

- The school has been notified by the Department that it must apply for approval of an additional location or educational program.
  [§600.20(c)(1)(v)]

A school that conducts a teach-out at a location of a closed school may apply to have the location approved as a permanent additional location if the closed school's teach-out plan has been approved by its accrediting agency and if the Department took a limitation, suspension, and termination (LS&T) or emergency action against the school before or after its closing. The school providing the teach-out is not required to satisfy the proprietary and postsecondary vocational school requirement of being in existence for 2 years. If the closed school and teach-out schools are not related parties and do not have common ownership or management, neither is the school providing the teach-out responsible for any liabilities of the closed school nor will the default rate of the closed school be included in the calculation of the teach-out school's cohort default rate (see Section 16.2). However, as a condition for approving the additional location, the Department may require that any payment(s) from the school conducting the teach-out to the owners or related parties of the closed school be used to satisfy the liabilities owed by the closed school.
[§600.32(d)]

### Eligibility Change for Branch Campus

If a school wishes to convert an eligible location to a branch campus, the school must apply to the Department and wait for approval before making such a conversion. While waiting for such approval, the school may continue to deliver Title IV funds to students attending that location.
[§600.20(c)(5); §600.20(f)(4)]

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 branch campus of the school must be in existence for at least 2 years following certification by the Department as a branch campus. The school's branch campus may then seek designation as a main campus or freestanding institution by following the procedures in Subsection 4.1.A on establishing eligibility.
[§600.8]

### Increase in Level of Program Offering

A school must apply to the Department for approval to increase its level of program offering (e.g., offering graduate degree programs when it previously offered only baccalaureate degree programs). The school must obtain the Department's approval before delivering Title IV funds to students enrolled in the new programs at the increased level.
[§600.20(c)(2); §600.20(f)(3)]

## 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.
  [§600.40(a)(1)(ii)]

- The school's eligibility expires.
  [§600.40(a)(1)(iv)(A)]

- The school's provisional eligibility is revoked.
  [§600.40(a)(1)(iv)(B)]

- 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.
  [§600.7(a)(3)]

- The school loses its licensure or accreditation.
  [§600.11(c); §600.41(a)(ii)(C) and (D)]

- The school undergoes a change of ownership resulting in a change of control.
  [§600.31(a)(1)]

- 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.
  [§600.40(a)(1)(iii)]

- The school or a controlling affiliate of the school files for bankruptcy or is forced into bankruptcy by its creditors.
  [§600.7(a)(2)(A) and (B)]

- The school's accreditation is no longer recognized by the Department because the school does not agree to submit any dispute involving the final denial, withdrawal, or termination of its accreditation or preaccreditation to initial 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.
  [§600.7(a)(1)(i)]

- 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.
  [§600.7(a)(1)(ii)]

- The percentage of the school's regularly enrolled students who are incarcerated is more than 25%. The Department may waive this rule if the school is a nonprofit institution that provides 2-year or 4-year educational programs for which it awards an associate or bachelor's degree, or a postsecondary diploma.
  [§600.7(a)(1)(iii) and (c)]

- The percentage of the school's regularly enrolled students who had neither a high school diploma nor the recognized equivalent of a high school diploma is more than 50%, and the school does not provide a 2-year or 4-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.
  [§600.7(a)(1)(iv) and (d)]

### 90/10 Rule for Proprietary Institutions

Federal regulations stipulate that a proprietary institution must receive no more than 90% of its revenue from Title IV funds. This requirement is known as the 90/10 rule. The methods for determining the revenue percentages are found in §668.28(a) and (b). The definitions for the revenue components in the 90/10 calculation are provided in §668.28(a) and (b) and the formula for calculating the revenue percentage is detailed in Appendix C to Subpart B of Part 668.

If a proprietary institution fails to satisfy the 90/10 rule during its most recently completed fiscal year, it has no more than 45 days after the end of that period to report to the Department and each applicable guarantor that it did not satisfy the 90/10 rule for that period. A proprietary institution's certification becomes provisional at the start of a fiscal year after it fails to satisfy the 90/10 rule for the preceding fiscal year. The institution's provisional certification ends on either of the following:

- The expiration date of the proprietary institution's program participation agreement, in effect on the date that the institution failed to satisfy the 90/10 rule.

- The date the proprietary institution loses its eligibility to participate in Title IV programs. The institution loses its eligibility on the last day of the second consecutive fiscal year for which it failed to satisfy the 90/10 rule.

To regain eligibility to participate in the Title IV programs, a proprietary institution must demonstrate that it has complied with the state, federal, or tribal licensing and/or authorization, the accreditation, and the financial responsibility requirements for a minimum of two fiscal years after the end of the fiscal year in which it became ineligible.
[§600.9; §668.28(c)]

### 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]

### Delivery of Proceeds in Cases of Loss of School Eligibility

A school's loss of eligibility impacts its ability to deliver Title IV funds to students. See Subsection 7.7.H and Section 8.11 for additional information regarding the disbursement and delivery of funds in the case of loss of school eligibility or certification.

## 4.1.E
## School Misrepresentation

Misrepresentation is defined as any false, erroneous, or misleading statement by an eligible school; one of its representatives; or any ineligible school, organization, or person with whom the eligible school has an agreement to provide educational programs; or marketing, advertising, recruiting, or admissions services, made directly or indirectly to a student, a prospective student, any member of the public, an accrediting agency, a state agency, or the Department. A misleading statement is any communication made in writing, visually, orally, or through another means that has the capacity, likelihood, or tendency to deceive or confuse.

"Substantial misrepresentation" is defined as any misrepresentation on which the person to whom it was made could reasonably be expected to rely, or has reasonably relied, to that person's detriment. If the Department determines that an eligible school has engaged in substantial misrepresentation, the Department may:

- Revoke the school's Title IV program participation agreement;

- Impose limitations on the school's participation in the Title IV programs;

- Deny a participation application made on behalf of a school; and

- Initiate an LS&T action against the school under §668, Subpart G.

[§668.71]

For detailed information on specific activities that constitute substantial misrepresentation, see §668.72, §668.73, §668.74, and §668.75.

# 4.1.F
# School Code of Conduct

As part of its Program Participation Agreement (PPA), a school must develop, publish, administer, and enforce a code of conduct that applies to the school's agents, which includes officers and employees. The school must publish the code of conduct prominently on the school's Website and require that all of the school's agents with responsibilities with respect to FFELP or private education loans be informed annually of the provisions of the code of conduct.
[§601.21(a)(2); §668.14(b)(27)]

The code of conduct must prohibit conflicts of interest and include the following:

- A ban on revenue-sharing arrangements. A school may not enter into a revenue-sharing arrangement with any lender. A revenue-sharing arrangement is defined as any arrangement between a school and a lender that provides or issues a FFELP or private education loan to a student or the family of a student attending the school where the school recommends the lender or the loan products of the lender and, in exchange, the lender pays a fee or provides other material benefits, including revenue or profit-sharing, to the school or its agents.
  [HEA §487(e)(1); §601.21(c)(1); DCL GEN-08-12/FP-08-10]

- A gift ban. An agent employed in the financial aid office or who has responsibilities with respect to FFELP or private education loans may not solicit or receive gifts from a FFELP or private education loan lender, servicer, or guarantor. A "gift" is defined as any gratuity, favor, discount, entertainment, hospitality, loan, or other item having monetary value of more than a *de minimus* amount. Gifts include services such as transportation, lodging, or meals, whether provided *in kind* by purchase of a ticket, or paid in advance or reimbursed after the expense is incurred. Additionally, any gift provided to a family member of a school employee or agent with responsibilities related to FFELP or private education loans is considered a gift if given with the knowledge and permission of the employee or agent where there is reason to believe the gift was due to the employee's or agent's official position. Exceptions to this gift ban include the following:

  – The school may accept brochures, workshops, or trainings using standard materials relating to a loan, default aversion and prevention, or financial literacy.

  – The school may accept food, training, or informational material provided as part of a training session designed to improve the service of the FFELP or private education loan lender, guarantor, or servicer if the training contributes to the professional development of the school's officer, employee, or agent.

  – The school may accept favorable terms and benefits on a FFELP or private education loan provided to a student employed by the school if those terms and benefits are comparable to those provided to all students at the school.

  – A lender or guarantor may conduct entrance and exit counseling at a school, as long as the school's staff are in control of the counseling and the counseling does not promote the services of a specific lender.

  – The school may accept philanthropic contributions from a lender, guarantor, or servicer that are unrelated to education loans or any contribution that is not made in exchange for advantage related to FFELP or private education loans.

  – The school may accept education grants, scholarships, or financial aid funds administered by or on behalf of a state.
    [HEA §487(e)(2); §601.21(c)(2); DCL GEN-08-12/FP-08-10]

- A ban on contracting arrangements. A school officer, employee, or agent working in the school's financial aid office or who has responsibilities with respect to FFELP or private education loans may not accept from a lender, or affiliate of any lender, any fee, payment, or other financial benefit as compensation for any type of consulting arrangement or contract to provide services to or on behalf of a lender relating to FFELP or private education loans. However, the following exceptions apply:

  – An agent who is not employed in the financial aid office and does not have any responsibilities related to FFELP or private education loans is

permitted to serve on a lender, guarantor, or servicer board of directors if the school has a written conflict of interest policy that states that the agent must not participate in any board decision involving FFELP or private education loans.

– An officer or contractor of a lender, guarantor, or servicer of FFELP or private education loans may serve on the board of directors or serve as trustee of a school if the school has a written policy that states that the member or trustee must not participate in any decision regarding FFELP or private education loans at the school.

[HEA §487(e)(3); §601.21(c)(3); DCL GEN-08-12/FP-08-10]

- A school may not assign, through award packaging or other methods, a lender to a first-time borrower. In addition, the school may not delay or refuse to certify a loan based on the borrower's choice of a particular lender or guarantor.
  [HEA §487(e)(4); §601.21(c)(4); DCL GEN-08-12/FP-08-10]

- A prohibition on offers of funds for private education loans. A school may not request or accept funds from a lender for private education loans, including funds for opportunity pool loans to its students, in exchange for providing concessions or promises to the lender for a specific number of FFELP or private education loans made, insured, or guaranteed; a specified loan volume; or a preferred lender arrangement.
  [HEA §487(e)(5); §601.21(c)(5); DCL GEN-08-12/FP-08-10]

- A ban on staffing assistance. A school may not request or accept assistance from a lender with call center or financial aid office staffing. However, a school can receive assistance from a lender in the form of professional development training, educational counseling materials as long as the materials identify the lender that assisted in preparing the materials, and short-term non-recurring staffing assistance during emergencies identified by the Department or state or federally declared natural disasters.
  [HEA §487(e)(6); §601.21(c)(6); DCL GEN-08-12/FP-08-10]

- A prohibition on receiving compensation for service on an advisory board. Any employee of the school's financial aid office or who has responsibilities with respect to education loans or financial aid that serves on an advisory board, commission, or group established by a lender or guarantor, or group of lenders or guarantors, is prohibited from receiving anything of value for the service except for reimbursement of reasonable expenses incurred by the employee for service on the board. Reasonable expenses are defined by the state government reimbursement policy applicable to the entity. If no state policy is applicable to the entity, then reasonable expenses are defined by federal cost principles for reimbursement.
  [HEA §487(e)(7); §601.21(c)(7); §668.16(d)(2)(ii); DCL GEN-08-12/FP-08-10]

## 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 and coordinate the FFELP 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 Title IV programs 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 reasonable standards for determining whether an otherwise eligible student is making satisfactory academic progress (SAP) in his or her educational program and is eligible to receive Title IV aid. These standards must, at a minimum, conform to the standards detailed in the federal regulations. See Section 8.4 for more details.
  [§668.16(e); §668.34(a)]

- 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.
  [§668.16; §682.203(a)]

- The school's cohort default rate:

  – Must be less than 25% for each of the three most recent fiscal years for which two-year rates have been issued.

  – Beginning in 2014, must be less than 30% for at least two of the three most recent fiscal years for which three-year rates have been issued.

  – Must not exceed 15% for Perkins loans.

  [HEA §435(a)(2)]

- A school must annually report to the Department the amount of any reasonable expenses that were paid or provided by a private education loan lender or group of lenders to an agent of the school with responsibilities for financial aid. The school must report all of the following:

  – The amount for each specific instance of reasonable expenses paid or provided. See Subsection 4.1.F for more information about the standards for determining reasonable expenses.

  – The name of the agent with responsibilities for financial aid to whom the expenses were paid or provided.

  – The dates of each activity for which the expenses were paid or provided.

  – A brief description of each activity for which the expenses were paid or provided.

  [§668.16(d)(1) and (2)]

- The school must establish and maintain records required under 34 CFR Part 668 (General Provisions) and as required for each Title IV program.

- A school must develop and follow procedures to evaluate the validity of a student's high school completion if the school or the Department has reason to believe that the student's high school diploma is not valid or the student obtained a diploma from an entity that does not provide secondary school education. This requirement does not apply to a student who receives a secondary education in a home school setting that is treated as a home or private school under applicable state law.
  [§668.16(p); *Federal Register* dated October 29, 2010, p. 66888]

## 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 need-based financial aid does not exceed the student's need.

- Ensuring that each student's financial aid package does not exceed the student's cost of attendance.
  [§682.603(e)(2)]

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) and (c)]

## 4.2.B
## Financial Aid Administrator Training

When a school begins participation in any Title IV program, the school is required to send at least two representatives, including both its president or chief executive officer (CEO) and financial aid administrator (FAA), to the Department's Fundamentals of Title IV Administration Training workshop. Also, if a school changes ownership, structure, or governance, its representatives must attend the training (see Subsection 4.1.C). The training must be completed up to 12 months prior to but no later than 12 months after the school executes its Program Participation Agreement (PPA) or experiences a change in ownership, structure, or governance.

The CEO may designate another school executive-level officer to attend the training in lieu of the CEO. However, the attending FAA must be the person designated by the school to be responsible for administering the Title IV programs at the school. If the school uses a consultant to administer the Title IV programs, the consultant must attend the training as the school's FAA. However, the Department strongly recommends that a financial aid employee from the school attend the training along with the consultant.

The school may request from the Department a waiver of the training requirement for the FAA and/or the CEO. The Department may grant or deny the waiver for the required individual, require another official to take the training, or require alternative training.
[§668.13(a)(2) and (3)]

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 FSA 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.

# 4.3 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 Circular A-133 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.
[§668.23(a)(4); §668.23(d)(1) and (2)]

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. The revenue percentage must be calculated in accordance with §668.28(a) and (b). The proprietary school must also include, in the footnote, the dollar amount of the numerator and of the denominator in the school's 90/10 calculation along with the individual revenue amounts by source (see Section 2 of Appendix C in subpart B of Part 668). The independent certified public accountant who prepares a proprietary school's audited financial statement must report on the accuracy of the school's calculation of the 90/10 components—based on performing an agreed-upon procedure attestation engagement.
[§668.23(d)(4); 09-10 FSA Handbook, Volume 2, Chapter 1, p. 2-7]

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 domestic 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)]

A school participating in a Title IV program is required to submit audited financial statements and compliance audits to the Department electronically through eZ-Audit.
A nonprofit or public school must submit copies of the A-133 reports in writing to the Federal Audit Clearinghouse, in addition to submitting the A-133 reports to the Department through eZ-Audit.
[09-10 FSA Handbook, Volume 2, Chapter 12, pp. 2-145 to 2-155]

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, as follows:

- A public or nonprofit foreign school, which is not in its initial provisional period, that has received less than $500,000 (U.S) in Title IV funds during the most recent fiscal year is not required to submit an audited financial statement unless requested to do so by the Department.

- A public or private nonprofit foreign school, that has received at least $500,000 but less than $3,000,000 (U.S.) in Title IV funds during the most recent fiscal year, must submit, in English, an audited financial statement that adheres to the generally accepted accounting principles of that school's home country.

- A public or private nonprofit foreign school that has received at least $3,000,000 but less than $10,000,000 (U.S.) in Title IV funds during the most recent fiscal year must submit, in English, an audited financial statement that adheres to the generally accepted accounting principles of that school's home country. In addition, every third year, such a school must submit corresponding documents that meet U.S. generally accepted accounting principles, and the requirements of §668.23(d).

An audited financial statement that adheres to the generally accepted accounting principles of that school's home country must be submitted, in English, on an annual basis, by:

- Any public or private nonprofit foreign school, that has received $10,000,000 (U.S) or more in Title IV funds during the most recent fiscal year.

- Any for-profit foreign school.

- Any foreign school still in its initial provisional status. In addition, every third year, such schools must submit corresponding documents that meet U.S. generally accepted accounting principles and the requirements of §668.23(d).
[§668.23(h)(1); §668.175]

The Department may also require a financial audit or additional documentation at any time for research, audit or investigative purposes.

### 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 returns of unearned Title IV funds if the school meets at least one of the following criteria:

- The school satisfies the financial responsibility standards for public schools.
- The school is located in, and 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 returns unearned Title IV funds in a timely manner for students who withdraw from the school. For more information on the timely return of unearned Title IV funds, see Subsection 9.5.B.
  [§668.171(b)(2); §668.173(a)]

#### Compliance Threshold

A school fails to demonstrate that it has sufficient cash reserves for the timely return of unearned Title IV funds if, in a compliance audit conducted by an independent auditor or by the Office of the Inspector General, or in a program review conducted by the Department or a guarantor, the auditor or reviewer finds one of the following:

- The sample of student records audited or reviewed shows that the school did not return unearned Title IV funds timely for 5% or more of the students in the sample. For purposes of determining this compliance threshold percentage, the sample includes only students for whom the school was required to return unearned funds during the most recently completed fiscal year. The Department does not consider a school to be out of compliance if it is cited because it did not

return unearned funds in a timely manner for one or two students or for less than 5% of the students in the sample.

- The review reveals a material weakness or reportable condition in the school's report on internal controls relating to the return of unearned Title IV funds.

If a finding in an audit or review shows that the school exceeded the 5% compliance threshold for either of its two most recently completed fiscal years, and if the school satisfies the sufficient cash reserve standard only by its timely return of unearned Title IV funds, the school must submit an irrevocable letter of credit acceptable and payable to the Department. The letter of credit must equal 25% of the total amount of unearned Title IV funds that the school was required to return during the school's most recently completed fiscal year. The school must submit the letter to the Department no later than 30 days after the earliest of the following:

- The date the school is required to submit its compliance audit.
- The date the Office of the Inspector General issues a final audit report.
- The date the designated Department official issues a final program review determination.
- The date the Department issues a preliminary program review report or draft audit report, or a guarantor issues a preliminary report, showing that the school did not return unearned funds for more than 10% of the sampled students.
- The date the Department sends a written notice to the school requesting a letter of credit that explains why the school has failed to return unearned funds in a timely manner.

**Exceptions to Letter of Credit Requirement**

A school that is otherwise required to submit an irrevocable letter of credit acceptable and payable to the Department may be eligible for an exception if one of the following situations exists:

- The calculated amount of unearned Title IV funds that were not returned timely is less than $5,000 and the school can demonstrate that it has cash reserves of at least $5,000 available at all times. In this situation, the school is not required to submit the letter of credit.
- The school submits documents showing that the unearned Title IV funds were not returned in a timely manner solely because of exceptional circumstances beyond the school's control, and demonstrates that the school would not have exceeded the 5% compliance threshold had it not been for these exceptional circumstances.
- The school submits documents showing that it did not fail to make timely refunds of unearned Title IV funds.

In either of the last two instances, the school may delay submitting the letter of credit and request that the Department reconsider a finding made in its most recent audit or review report.

The school's request for consideration and supporting documentation must be submitted to the Department no later than the date the school would otherwise be required to submit a letter of credit. If the Department denies the school's request for an exception to the letter of credit requirement, the school will be notified of the date by which it must submit the letter of credit. [§668.15(b)(5); §668.171(b)(2); §668.173]

# 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 Figure 4-1

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 | $\frac{\text{Adjusted Equity}}{\text{Total Expenses}}$ | $\frac{\text{Expendable Net Assets}}{\text{Total Expenses}}$ |
| Equity Ratio | $\frac{\text{Modified Equity}}{\text{Modified Assets}}$ | $\frac{\text{Modified Net Assets}}{\text{Modified Assets}}$ |
| Net Income Ratio | $\frac{\text{Income Before Taxes}}{\text{Total Revenues}}$ | $\frac{\text{Change in Unrestricted Net Assets}}{\text{Total Unrestricted Revenues}}$ |

**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:<br>(Net Income Ratio x 50) + 1 = Strength Factor Score |
| | If Net Income Ratio is negative:<br>(Net Income Ratio x 50) + 1 = Strength Factor Score |
| | If Net Income Ratio is 0:<br>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. |

[Appendix A and Appendix B to Subpart L of §668; DCL GEN-01-02]

## 4.4 Providing Information to Students

Federal regulations outline specific information that the school must provide to prospective students and their parents, to enrolled students, and in some cases, to school employees and prospective employees. Generally, this information is provided by a school's financial aid office. This information includes general consumer information such as graduation and transfer-out rates, campus crime statistics, and entrance and exit counseling for student borrowers.

For more information on the responsibilities of a financial aid office with respect to providing this information, the school may refer to §682.604 and §668.42, as well as the 09-10 FSA Handbook, Volume 2, Chapter 6, pp. 2-78 to 2-84.

## 4.4.A Preferred Lender Arrangements and Lists

A preferred lender arrangement is an agreement between a lender and a school or an institution-affiliated organization under which a lender issues loans to a student or a student's family and the school or institution-affiliated organization recommends, promotes, or endorses the lender's loans. A preferred lender arrangement does not include: [§601.2(b)]

- Arrangements or agreements with respect to loans made under the Federal Direct Loan Program.
- A private education loan made by a school or institution-affiliated organization to a student attending the school, provided the loan meets any one of the following conditions:
  - The loan is funded by the school's or institution-affiliated organization's own funds.
  - The loan is funded by donor-directed contributions.
  - The loan is made under Title VII or Title VIII of the Public Service Health Act.
  - The loan is made under a state-funded financial aid program, if the terms and conditions of the loan include a loan forgiveness option for public service.

A school or an institution-affiliated organization that participates in a preferred lender arrangement must disclose on its Website and in all publications, mailings, or electronic messages or materials that describe or discuss education loans, including a list of preferred lenders (see below), all of the following:

- The maximum amounts of Title IV grant and loan aid available to students in an easy-to-understand format. [§601.10(a)(1)(i)]
- The information identified on a model disclosure form developed by the Department for each type of FFELP loan that is offered pursuant to a preferred lender arrangement. This information must be provided in a manner that allows for the student and his or her family to take the information into account before selecting a lender or applying for an education loan. [§601.10(a)(1)(ii); §601.10(c)(2)]
- A statement that the school is required to process FFELP loan documents from any eligible lender the student selects. [§668.10(a)(1)(iii)]
- The information identified on the Private Loan Application and Solicitation Model Form approved by the Federal Reserve Board for each type of private education loan that is offered pursuant to a preferred lender arrangement. This information must be provided in a manner that allows for the student and his or her family to take the information into account before selecting a lender or applying for an education loan. For more information about the Private Loan Application and Solicitation Model Form, see the Final Rules published by the Federal Reserve Board in the *Federal Register* dated August 14, 2009, Vol. 74, No. 156, pp. 41237 and 41238. [§601.10(a)(2)(i) and (ii); §601.10(c)(2)]

### Preferred Lender Lists

For any year in which a school has a preferred lender arrangement, the school must compile, maintain, and make available to a student and his or her family a list of FFELP or private education loan lenders that the school recommends, promotes, or endorses. The list must: [§668.14(b)(28)]

- Contain at least three unaffiliated FFELP lenders that will make FFELP loans to borrowers or students attending the school. If the school participates in a preferred lender arrangement for private education loans, the list must include at least two unaffiliated private education lenders. If any listed lender is an affiliate of any other listed lender, the school must provide the details of the affiliation. The lender affiliation provision does not include entities that are involved in post-disbursement activities, which a school has no ability to monitor or control. For the purposes of this subsection, a lender is affiliated with another lender if any of the following criteria applies: [§601.10(d)(2)]
  - The lenders are under the ownership or control of the same entity or individuals.
  - The lenders are wholly or partly owned subsidiaries of the same parent company.
  - The directors, trustees, or general partners (or individuals exercising similar functions) of one of the lenders constitute a majority of the persons holding similar positions with the other lender.
- Not include lenders that have offered, or have offered in response to a solicitation by the school, financial or other benefits to the school in exchange for inclusion on the list or any promise that a certain number of loan applications will be sent to the lender by the school or its students.
- Disclose prominently the method and criteria used by the school in selecting any lender that it recommends. [§601.10(d)(3); §682.212(h)(2)(i)]
- Disclose why the school participates with each lender on the list, particularly with respect to terms and conditions or provisions that are favorable to the borrower. [§601.10(d)(1)(ii)]

A school that provides a FFELP or private education loan preferred lender list must do each of the following:

- Provide comparative information to prospective borrowers about interest rates and other benefits offered by the lenders.
- Include a prominent statement in any information related to its list of lenders, advising prospective borrowers that they are not required to use one of the school's recommended lenders. [§601.10(d)(1)(iii); §682.212(h)(2)(iii)]
- Exercise a duty of care and a duty of loyalty to compile the preferred lender list without prejudice and for the sole benefit of the students and their families. [§601.10(d)(4)]
- Not deny or otherwise impede a borrower's choice of lender or cause unnecessary certification delays for a borrower who chooses a lender that is not included on the preferred lender list. [§601.10(d)(5)]
- Update any list of preferred lenders and any information accompanying such a list no less often than annually. [§682.212(h)]

A school that chooses not to participate in a FFELP or private education loan preferred lender arrangement, or that has not been able to identify the requisite number of unaffiliated lenders to make loans to its students and parents under a preferred lender arrangement, may provide alternative information to assist its students and/or parents with their choice of lender. The school may provide any of the following:
[DCL GEN-08-06]

- The names of lenders that have indicated a willingness to make FFELP or private education loans to students and their parents for attendance at the school.
- A neutral, comprehensive list of lenders that have made FFELP or private education loans in the past three to five years (or some other time frame established by the school) to students and parents at the school and that have indicated a willingness to continue to make education loans, as long as the lenders did not provide any prohibited inducement to

the school to secure loan applications. A school may provide a comparison of terms and conditions offered by the lenders on the loans being offered.

- A referral to a Website maintained by a third-party entity that contains a neutral list of private education loan lenders and the products each lender offers. However, the school must ensure that the third-party Website complies with all of the following:
  - The listing of private education loan lenders is broad in scope.
  - The third-party Website does not recommend or endorse any of the lenders on the list.
  - The private education loan lenders on the list do not pay the third-party entity for placement on the list or pay the third-party entity a fee based on any loan volume generated.

When providing either type of lender information, the school must not provide any additional information about any lender on the list it offers, must make clear that it is not endorsing any lender, and must clearly state that the student and/or parent may choose any FFELP or private education loan lender that will make loans for attendance at that school.

## 4.4.B
## Student Consumer Information

A school that participates in any Title IV program must make available—and in some cases directly distribute—certain student consumer information to all currently enrolled students, prospective students, and in certain cases, current employees, prospective employees, parents, counselors, coaches, and the public. The school's written student consumer information and related reports must adhere to statutory and regulatory requirements, as outlined in the HEA §485 and Subpart D (Institutional and Financial Assistance Information for Students) of the Student Assistance General Provisions. (The school should refer to §668.41 through §668.48.) The school also may wish to consult other Department of Education publications, such as the 09-10 FSA Handbook, Volume 2, Chapter 6 and the *Handbook for Campus Crime Reporting* for more information on student consumer information requirements, including authorized procedures for disclosing student consumer information. A school must prepare or revise information for each award year during which it participates in any Title IV program.

A prospective student is an individual who has contacted an eligible school to request information about admission to the school. The 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 his or her postsecondary education. [§668.41(a)]

Auditors and program reviewers will examine the school's written student consumer information for accuracy, completeness, and adherence to the requirements outlined in federal statute and regulations.

### Information for Student Athletes Who Are Offered Financial Aid

When a school participating in any Title IV program offers a potential student athlete athletically related financial aid, the school must provide the potential student athlete—and his or her parents, high school coach, and guidance counselor—information on completion or graduation rates and transfer-out rates for student athletes, following the requirements of HEA §485(e), §668.41(b) and (f), and §668.48. A school must calculate and disclose a transfer-out rate only if the school determines that its mission includes providing substantial preparation for its students to enroll at another eligible school. The school also must submit the report produced to provide information to these students to the Department by July 1 of each year. [§668.45(a)(2)]

A school's responsibilities may be satisfied if all of the following criteria are met:

- The school is a member of a national collegiate athletic association. [§668.41(f)(1)(ii)(A)]
- The association compiles data on behalf of its member schools, which the Department determines is comparable to those required in §668.48. [§668.41(f)(1)(ii)(B)]
- The association distributes the data to all secondary schools in the United States. [§668.41(f)(1)(ii)(C)]

See below under the subheading *General Disclosures for Enrolled and Prospective Students* for more information about completion or graduation rates and, if applicable, transfer-out rates that a school must calculate for the general student body.

**General Disclosures for Enrolled and Prospective Students**

A school must make available to enrolled and prospective students through appropriate publications, mailings, or electronic media, information about the school and financial aid available to students attending the school. A school is considered to make information available by posting it on a Website or including it in printed material without regard to whether any one individual requests it. When a student inquires about the general disclosure information that a school must make available, the school must direct the student to the appropriate source from which the information may be obtained. [§668.41(d)]

A school must annually provide a currently enrolled student with a direct notice of the availability of the information that must be disclosed, briefly describe it, and advise the student how to obtain the information. A school that discloses information to an enrolled student by posting the information on its Website must include in its notice the exact electronic address at which the information is posted, and a statement that the school will provide a paper copy of the information upon the student's request. A school may use either an *Intra*net or *Inter*net Website to make student consumer information available to an enrolled student. A school must not use an *Intra*net Website to make student consumer information available to a prospective student. [§668.41(b) and (c)]

General disclosures for enrolled and prospective students must include, but are not limited to, all of the following: [HEA §485(a)(1)(A); §668.42(a)]

- The federal, state, local, private, and institutional financial aid programs available to students who enroll at the school, including descriptions of:
  - The procedures (including deadlines) and forms a student must use to apply for assistance. [§668.42(b)(1)]
  - The requirements used in determining whether a student is eligible for aid. [§668.42(b)(2)]
  - The method by which financial aid disbursements are determined and disbursed, delivered, or applied to the student's account and the frequency of those disbursements. [§668.42(b) and (c)(3)]
  - The procedures for certain Pell grant-eligible students to obtain or purchase necessary books and supplies required for the payment period by the seventh day of the payment period; and the procedures for the student to opt out of this process. The information must indicate whether the school will enter a charge on the student's account at the school for books and supplies or pay funds directly to the student. See Subsection 8.7.C subheading *Provisions for Necessary Books and Supplies* for more information. [§668.164(i)]
  - The terms and conditions of any FFELP, FDLP, or Perkins loan(s) that is available to a student who enrolls at the school. See below for additional information that must be disclosed to a student who receives a FFELP, FDLP, or Perkins loan as part of a financial aid package. [HEA §485(a)(1)(M); §668.42(a)(4)]
  - The criteria used by the school to select financial aid recipients from the group of eligible applicants. [§668.42(b)(3)]
  - The criteria used in determining the amount of a student's award. [§668.42(b)(4)]

  *Funding Education Beyond High School: The Guide to Federal Student Aid*, a free booklet published by the Department, provides schools with an excellent source of materials 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
  Federal Student Aid
  P.O. Box 84
  Washington, DC 20044

- A description of student rights and responsibilities specifically addressing financial aid under the Title IV programs that includes, but is not limited to, the following:
  - The criteria for continued student eligibility under each program. [§668.42(c)(1)]

- The standards by which the school determines, for the purpose of awarding financial assistance, whether a student is making satisfactory academic progress (SAP), and the criteria that must be met by a student who has failed to maintain SAP to reestablish eligibility for assistance. [§668.42(c)(2)(i) and (ii)]

- Information on how and when a student will receive financial aid payments. [§668.42(c)(3)]

- The terms and conditions of any FFELP, FDLP, or Perkins loan(s) a student receives as part of a financial aid package and a sample loan repayment schedule. Loan terms that will 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 must be emphasized. The school must provide additional information during entrance and exit counseling sessions (see Subsections 4.4.C and 4.4.D). [HEA §485(a)(1)(M); §668.42(c)(4) and (6)]

- The general conditions and terms applicable to any employment provided to a student as part of the student's financial aid package (for students receiving aid under the Federal Work-Study Program). [§668.42(c)(5)]

To assist schools in meeting the student consumer information requirements, each MPN includes detailed information on the terms of the borrower's loan. By signing the Federal PLUS Loan Application and Master Promissory Note (PLUS MPN) or the Federal Stafford Loan Master Promissory Note (Stafford 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.

- A school that enters into a written agreement with another school or organization (see Subsection 4.1.B) must provide students with information describing the written agreement, and include at least the following:

  - A description of the portion of the program that the school granting the degree (home institution) is not providing.

  - The name and location of the other school or organization providing the portion of the educational program that is not provided by the home institution.

  - The method by which the portion of the program that the home institution is not providing will be delivered.

  - The additional estimated costs that students may incur by enrolling in the educational program offered under the written agreement. [§668.43(a)(12)]

- The cost of attending the school, including:

  - Tuition and fees charged to full-time and part-time students. [§668.43(a)(1)(i)]

  - Estimated costs for necessary books and supplies. [§668.43(a)(1)(ii)]

  - Estimates of typical costs for room and board. [§668.43(a)(1)(iii)]

  - Estimates of transportation costs for students. [§668.43(a)(1)(iv)]

  - Any additional costs for a particular program in which a student is enrolled or expresses an interest. [§668.43(a)(1)(v)]

- Any refund policy with which the school is required to comply for the return of unearned tuition and fees or other refundable charges paid to the school. [§668.43(a)(2)]

- The requirements and procedures for officially withdrawing from the school. [§668.43(a)(3)]

- A summary of the requirements under §668.22 for the return of Title IV loan or grant assistance. For more information on school requirements for returning Stafford or PLUS loan funds, see Section 9.5. [§668.43(a)(4)]

- The school's current degree programs and other educational and training programs, and any plans the school has to improve its academic programs. A school

may determine what a plan is, and when a plan becomes a plan.
[HEA §485(a)(1)(G); §668.43(a)(5)(i) and (iv)]

- The school's instructional, laboratory, and other physical facilities that relate to its academic programs. [§668.43(a)(5)(ii)]

- The school's faculty and other instructional personnel. [§668.43(a)(5)(iii)]

- The names of the school's accrediting, authorizing, or licensing organizations and the procedures under which any current or prospective student may review a copy of the documents describing the school's accreditation, licensing, and/or authorization. The school must also provide contact information for filing a complaint with each entity, as applicable, as well as any other relevant state official or agency that would appropriately handle a student's complaint. [§600.9; §668.43(a)(6); §668.43(b)]

- Special facilities and services available to students with disabilities, including students with intellectual disabilities. See §668.231(b) for more information about a student with an intellectual disability. 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 exist to accommodate students with special needs.
[§668.43(a)(7)]

- The titles of designated school personnel that are available on a full-time basis to assist students and prospective students in obtaining consumer information about the school—with information on how and where those persons may be contacted. [§668.43(a)(8); §668.44]

- 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. [§668.43(a)(9)]

- For schools that use job placement statistics in recruiting students, the most recent available data concerning job placement statistics, graduation statistics, and any other information necessary to substantiate the truthfulness of the advertisements. [§668.14(b)(10)(i)]

- The school's policies and sanctions related to copyright infringement, including all of the following:

  – A description of the school's policies on unauthorized peer-to-peer file sharing, including disciplinary actions that are taken against students who use the school's information technology system to engage in illegal downloading or unauthorized distribution of copyrighted materials.

  – A summary of the penalties for violation of federal copyright laws.

  – An explicit statement that a student may be subject to civil and criminal penalties for the unauthorized distribution of copyrighted material, including unauthorized peer-to-peer file sharing.
  [HEA §485(a)(1)(P); §668.43(a)(10)]

- Student body diversity at the school, including information on the percentage of enrolled, full-time students who are male, female, receive a Federal Pell grant, and are self-identified as members of a major racial or ethnic group.
[HEA §485(a)(1)(Q)]

- From data gathered through alumni surveys, student satisfaction surveys, state data systems, or other relevant sources:

  – Information about employment placement and the types of employment obtained by graduates of the school's degree or certificate programs. If a school calculates an actual job placement rate, even if the school is not required to do so, the school must disclose the rate.
  [HEA §485(a)(1)(R); §668.41(d)(5)]

  – The types of graduate and professional education in which graduates of the school's four-year degree programs enrolled.
  [HEA §485(a)(1)(S); §668.41(d)(6)]

Regardless of the source of the information that a school chooses, the school must disclose that source and any time frames and methodology associated with the data.
[§668.41(d)(5)(ii) and (6)(ii)]

- The retention rate of certificate- or degree-seeking, first-time, full-time undergraduate students entering the school, as reported to the Integrated Postsecondary Education Data System (IPEDS). In the case of a request from a prospective student, this information must be made available prior to the student's enrolling or entering into any financial obligation with the school.
[HEA §485(a)(1)(U); §668.41(d)(3)]

- The school's completion or graduation rate, and, if the school determines that its mission includes substantial preparation for its students to enroll at another eligible school, its transfer-out rate for the school's certificate- or degree-seeking, first-time, full-time undergraduate students, disaggregated by each of the following:

  – Gender.

  – Each major racial and ethnic subgroup (as defined in IPEDS).

  – Recipients of a Pell grant.

  – Recipients of a subsidized Stafford loan who did not receive a Pell grant.

  – Recipients of neither a subsidized Stafford loan nor a Pell grant.

  If the number of students in any of the aforementioned groups is insufficient to yield statistically reliable information, or if reporting will reveal personally identifiable information about an individual student, the school is not required to calculate a rate for that group. However, in such a case, the school must report that too few students enrolled in that group to disclose or report with confidence and confidentiality.

  A student is considered a recipient or a non-recipient of a Pell grant or, as applicable, a subsidized Stafford loan, if the student received the aid during one of the following time periods:

  – For a school with a predominant number of semester, trimester, or quarter term-based programs, the fall term of the year in which the student's cohort of certificate- or degree-seeking, first-time, full-time undergraduate students first entered the school.

  – For a school with a predominant number of programs that are not semester, trimester, or quarter term-based, the period between September 1 and August 31 of the following year when the student's cohort of certificate- or degree-seeking, first-time, full-time undergraduate students first entered the school.

  A two-year, degree-granting school is not required to report completion or graduation rates, and if applicable, transfer-out rates by the categories above until academic year 2011-2012. In the case of a request from a prospective student, this information must be made available prior to the student's enrolling or entering into any financial obligation with the school. See above for more information about completion or graduation rates and, if applicable, transfer-out rates that a school must calculate for students who receive athletically-related financial aid.
  [§668.41(d)(4); §668.45]

- A description of the school's transfer of credit policies, that includes, at minimum, both of the following:

  – Any criteria the school uses regarding the transfer of credit earned at another school.

  – A list of the schools with which the school has established an articulation agreement.

  An articulation agreement is an agreement among schools that specifies the acceptability of transfer courses toward meeting specific degree or program requirements. The Department may not require a school to establish a particular policy, procedures, or practice regarding transfer of credit.
  [HEA §486A(a)]

- The school's policies regarding vaccinations.
[HEA §485(a)(1)(V)]

### Gainful Employment Disclosures for Prospective and Enrolled Students

A school must provide certain disclosures to prospective and current students enrolled in a program that prepares students for gainful employment in a recognized occupation. For each of these programs, the school must provide prospective students with the following:

- The names and Standard Occupational Classification (SOC) codes of occupations that the program prepares students to enter, along with links to occupational profiles on O*NET or its successor site. If the number of occupations related to the program, as identified by entering the program's full six digit Classification of Instructional Programs (CIP) code on the O*NET crosswalk at *http://online.onetcenter.org/crosswalk/* is more than ten, the school may provide Web links to a representative sample of the identified occupations (by name and SOC code) for which its graduates typically find employment within a few years after completing the program.

- The on-time graduation rate for students completing the program. To calculate the on-time completion rate for each program:

  Step 1: Determine the number of students who completed the program during the most recently completed award year (regardless of whether the students transferred into the program or changed programs at the school).

  Step 2: Divide the number of students who completed the program within the normal time frame by the total number of students who completed the program and multiply the result by 100.

- The tuition and fees it charges a student for completing the program within the normal time frame as defined, the typical costs for books and supplies (unless those costs are included as part of tuition and fees), and the cost of room and board, if applicable. The school may include information on other costs, such as transportation and living expenses, but it must provide a Web link, or access, to the program cost information.

- The placement rate for students completing the program, as determined under a methodology developed by the National Center for Education Statistics (NCES) when that rate is available. In the meantime, if the school is required by its accrediting agency or state to calculate a placement rate on a program basis, it must disclose the rate and identify the accrediting agency or state agency under whose requirements the rate was calculated. If the accrediting agency or state requires a school to calculate a placement rate at the school level or other than a program basis, the school must use the accrediting agency or state methodology to calculate a placement rate for the program and disclose that rate.

- The median loan debt incurred by students who completed the program as provided by the Department, as well as any other information the Department provided to the school about that program. The school must identify separately the median loan debt from Title IV loans, and the median loan debt from private educational loans and school financing plans.

For each program, the school must include the above information in promotional materials it makes available to prospective students and post this information on its Web site. The school must prominently provide the information in a simple and meaningful manner on the home page of its program Web site, and provide a prominent and direct link on any other Web page containing general, academic, or admissions information about the program, to the single Web page that contains all the required information. The school must display the information on the school's Web site in an open format that can be retrieved, downloaded, indexed, and searched by commonly used Web search applications. An open format is one that is platform-independent, machine-readable, and made available to the public without restrictions that would impede the reuse of that information. When the Department issues a disclosure form for this information, schools must use the Department's disclosure form.
[§668.6]

### Annual Security Report

By October 1 of each year, a school must publish and distribute to all of its enrolled students and current employees an annual security report. If the school distributes its annual security report by posting it on an *Inter*net or *Intra*net Website, the school must notify its enrolled students and current employees of the exact electronic address at which the report is posted, briefly describe the report, and state that the school must provide a paper copy of the report upon request.

The school must notify prospective students and prospective employees about the availability of the annual security report, briefly describe its content and provide an opportunity to request a copy. If a school makes the annual security report available by posting it on an *Inter*net Website, the school must include in its notice to prospective students and prospective employees the exact electronic address at which the report is posted, briefly describe the report, and state that the school will provide a paper copy of the report upon request. A school must not use an *Intra*net Website to make student consumer information available to a prospective student or prospective employee.

The annual security report must, at minimum, include all of the following:

- A statement of the school's policies for reporting criminal actions or other emergencies that occur on campus, including the school's policies for responding to these reports.
- A statement of the school's current policies concerning security of and access to campus facilities.
- A statement of the school's current policies on the authority of security personnel and their relationship with state and federal law enforcement agencies.
- A description of the type and frequency of programs designed to inform students and employees about campus security procedures and practices.
- A description of programs designed to inform students and employees about crime prevention.
- A statement of policy concerning the monitoring and recording, through law enforcement, of criminal activity in which students engage at off-campus locations of student organizations that are officially recognized by the school.
- A statement of policy regarding the possession, use, and sale of illegal drugs and the enforcement of state and federal drug laws.
- A description of any drug- and alcohol-abuse educational programs.
- A statement of policy regarding the school's campus sexual-assault prevention programs, and procedures to follow when a sex offense occurs.
- A statement advising the campus community where sex offender registration information may be obtained.
- The three most recent calendar years of statistics on campus crimes that are reported to local police agencies or to a campus security authority.
- The school's emergency evacuation response procedures (see the subheading that follows for more information).
  [§668.46(g)]
- If a school provides on-campus housing facilities, its missing student notification policies and procedures (see the subheading that follows for more information).
  [§668.46(h)]

A school that provides on-campus housing facilities may, but is not required to, publish its annual fire safety report in its annual security report. (See below for more information about the fire safety report.) If a school that must disclose an annual fire safety report chooses to include it in its annual security report, the school must ensure that the report title clearly states that the report contains both the annual security report and the annual fire safety report. [§668.41(e)(6)]

*Campus Crime Log*

A school that maintains a campus police or campus security department must maintain a written, easily understood daily crime log that records, by the date the crime was reported, any campus crime that is reported to the campus police or security department. The school must make the crime log for the most recent 60-day period open to public inspection during normal business hours. The school must make any portion of the log older than 60 days available within two business days of a request for public inspection.

See the *Handbook for Campus Crime Reporting* for more detailed information about a school's campus crime policies and procedures, crime statistics, and the crime log. [§668.41(e); §668.46]

*Emergency Response and Evacuation Procedures*

A school must include in its annual security report a statement of policy regarding its emergency response and evacuation procedures. This policy must, at a minimum, include all of the following:

- The procedures the school uses to immediately notify the campus community upon confirmation of a significant emergency or dangerous situation that is occurring on campus and involves an immediate threat to the health or safety of students or employees.
- A description of the process the school uses to do all of the following:
  - Confirm that there is a significant emergency or dangerous situation.
  - Determine the appropriate segment(s) of the campus community to receive notification.

  - Initiate the notification system.

  The school must provide a list of the person(s) or organization(s) that are responsible for carrying out the aforementioned actions.

- A statement that the school will, without delay, determine the content of the notification and initiate the notification system unless doing so will compromise the efforts to assist a victim or to contain, respond to, or otherwise mitigate the emergency.

- The school's procedures for disseminating emergency information to the larger community (e.g., parents).

- The school's procedures to conduct an announced or unannounced test of its emergency response and evacuation procedures at least each calendar year. A school must publicize its emergency response and evacuation procedures in conjunction with each test, and document, for each test, a description of the exercise, the date, the time, and whether the test was announced or unannounced.
  [§668.46(g)]

*Missing Student Notification Policies and Procedures*

A school that provides on-campus housing facilities must include in its annual security report a statement of policy regarding missing student notification procedures for students who reside in an on-campus housing facility. An on-campus housing facility is a dormitory or other residential facility for students that is located on property that the school owns, including a building that is owned and maintained by a party other than the school (e.g., a student organization). If the school owns neither the property on which the student housing facility is located nor the building, the school is not required to develop and disclose a statement of policy regarding missing student notification procedures for students residing in that housing facility.

A school's missing student notification policy must, at a minimum, inform a student that resides in an on-campus housing facility of all of the following:

- The titles of persons or organizations to which students, employees, or other individuals should report that a student has been missing for 24 hours.
  [§668.46(h)(1)(i)]

- That a school must immediately refer any missing student report to a school's police or campus security department, or, if the school does not have a police or campus security department, to the local law enforcement agency with jurisdiction in the area.
  [§668.46(h)(1)(ii)]

- That the school must notify the appropriate law enforcement agency no later than 24 hours after the school determines that the student is missing, unless local law enforcement was the entity that made that determination.
  [§668.46(h)(1)(vi); §668.46(h)(2)(iii)]

- That a student may confidentially register contact information for an individual or individuals whom the school will contact no later than 24 hours after the school's campus security department or law enforcement determines that the student is missing. The contact information a student provides will be accessible only to authorized campus officials. The school must not otherwise disclose contact information for the student, except to law enforcement personnel who are conducting a missing person investigation.
  [§668.46(h)(1)(iii) and (iv); §668.46(h)(2)(i)]

- That the school must notify the custodial parent or guardian of a student who is under the age of 18 and who is not an emancipated minor no later than 24 hours after the student is determined to be missing, in addition to notifying any contact person the student designated.
  [§668.46(h)(1)(v); §668.46(h)(2)(ii)]

### Annual Fire Safety Report

By October 1 of each year, a school that provides on-campus student housing facilities must distribute to all of its enrolled students and current employees a fire safety report. An on-campus housing facility is a dormitory or other residential facility for students located on property that the school owns, including a building that is owned and maintained by a party other than the school (e.g., a student organization). If the school owns neither the property on which the student housing facility is located, nor the building, then the school is not required to include the student housing facility in its annual fire safety report or maintain a fire log for that facility (see below).

If a school must publish a fire safety report because it provides on-campus housing facilities, the school may, but is not required to, include the fire safety report in its annual security report. If a school chooses to include the annual fire safety report in its annual security report, the school must ensure that the report title clearly states that the report contains both the annual security report and the annual fire safety report. (See above for more information about the

annual security report.) If a school that is required to publish an annual fire safety report chooses to publish the fire safety report separately from the annual security report, the school must ensure that it includes information in each report about how to directly access the other report. [§668.41(e)(6)]

If the school publishes its fire safety report separately from its annual security report by posting it on an *Inter*net or *Intra*net Website, the school must notify its enrolled students and current employees of the exact electronic address at which the report is posted, briefly describe the report, and state that the school must provide a paper copy of the report upon request. The school must provide notice to prospective students and prospective employees about the availability of the fire safety report that it publishes separately from the annual security report. The notice must briefly describe the report's content and provide an opportunity to request a copy. If a school makes the separate fire safety report available by posting it on an *Inter*net Website, the school must include in its notice to prospective students and prospective employees the exact electronic address at which the report is posted, briefly describe the report, and state that the school will provide a paper copy of the report upon request. A school must not use an *Intra*net Website to make student consumer information available to a prospective student or prospective employee.
[§668.41(c)(2); §668.41(e)(4)]

A school's annual fire safety report must include, at a minimum, all of the following:

- A description of each on-campus student housing facility fire safety system.
- The number of fire drills held during the previous calendar year.
- The school's policies or rules on portable electrical appliances, smoking, and open flames in a student housing facility.
- The school's procedures for evacuating a student housing facility in the case of a fire.
- The school's policies on fire safety education and training programs provided to students and employees, which must describe the procedures that students and employees should follow in case of a fire.
- A list of the titles of each person or organization to which students and employees should report that a fire has occurred.
- Any plans the school has for future improvements in fire safety, if the school determines improvements to be necessary.
- The school's fire statistics for each on-campus student housing facility for the three most recent calendar years for which data are available. See §668.49(c) for more information about the mandatory content of the school's fire statistics.
  [§668.49(b)]

*Fire Log*

A school that maintains on-campus student housing facilities must maintain a written, easily understood fire log that records, by the date that a fire was reported, any fire that occurred in an on-campus student housing facility. The log must include the nature, date, time, and general location of each fire. A school must make the fire log for the most recent 60-day period available for public inspection during normal business hours. Upon request, the school must make available any portion of the log older than 60 days within 2 business days of the request.
[§668.49(d)]

### Drug Conviction Penalty Information

Upon a student's enrollment, a school must provide the student with a separate, clear, and conspicuous written notice of the penalty (i.e., the loss of Title IV eligibility) if the student is convicted of a state or federal offense involving the possession or sale of an illegal drug that occurred while the student was enrolled in school and receiving Title IV aid. See Section 5.9 for detailed information about the time frame for which a student loses Title IV eligibility based on whether the student is convicted of a first, second, or third offense for drug possession, or a first or second offense for drug sale.
[HEA §485(k)(1)]

A school must provide a student who loses Title IV eligibility due to a drug-related conviction with a timely, separate, clear, and conspicuous written notice. The notice must advise the student of his or her loss of Title IV eligibility and the ways in which the student may regain that eligibility (see Section 5.9).
[HEA §485(k)(2)]

## 4.4.C Entrance Counseling

A school must ensure that entrance counseling is provided in a simple and understandable manner to all of the following:

- Each student borrower who is obtaining his or her first Stafford loan, unless he or she has previously received a Stafford or Direct Stafford loan.

- Each graduate or professional student borrower who is obtaining his or her first Grad PLUS loan, unless he or she has previously received a PLUS loan, a Direct PLUS loan, a Grad PLUS loan, or a Direct Grad PLUS loan.

Entrance counseling must be provided at or prior to the time that the first disbursement of a loan is delivered, and may be conducted by any of the following methods:

- In-person presentation.

- Providing counseling materials to the borrower, including a separate written form that the borrower must sign and return to the school.

- Online or by interactive electronic means, where the borrower acknowledges receipt of the information.

[HEA §485(l)(1); §682.604(f)(3)(i)–(iii); §685.304(a)(3)(i)-(iii)]

If entrance counseling is conducted online or through interactive electronic means, the school must ensure that each student borrower receives the counseling materials and participates in and completes the counseling, which may include completion of any interactive program that tests the borrower's understanding of the terms and conditions of the borrower's loans.

The school must ensure that an individual with expertise in the Title IV programs is reasonably available shortly after the counseling has been conducted to answer questions regarding these programs. For a student enrolled in a correspondence program or study-abroad program that the home institution approves for credit, the school may provide counseling through written materials.
[HEA §485(l)(A); §682.604(f)(4) and (5); §685.304(a)(4) and (5)]

When counseling is conducted by another party, the school remains responsible for ensuring that each student borrower receives the counseling materials and participates in and completes entrance counseling.
[§682.604(f)(4); §685.304(a)(5)]

A school must ensure that information on the following subjects is provided to a first-time Stafford borrower who has not previously received a Stafford or Direct Stafford loan or to a first-time Grad PLUS borrower who has not previously received a Stafford or Direct Stafford loan, a PLUS or Direct PLUS loan, or a Grad PLUS or Direct Grad PLUS loan:

- The use of the Master Promissory Note (MPN). This may include the multi-year feature and borrower loan control points (e.g., affirmative or passive 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.
[§682.604(f)(6)(i); §685.304(a)(6)(i)]

- The seriousness and importance of the repayment obligation that the borrower is assuming.
[§682.604(f)(6)(ii); §685.304(a)(6)(ii)]

- How interest accrues and is capitalized during periods when the interest is not paid by either the borrower or the Department.
[HEA §485(l)(2)(C); §682.604(f)(6)(vii); §685.304(a)(6)(v)(B)(vii)]

- In the case of a Grad PLUS loan or unsubsidized Stafford loan, that the borrower has the option to pay interest that accrues while the borrower is in school.
[HEA §485(l)(2)(D); §682.604(f)(6)(viii); §682.604(f)(7)(ii); §685.304(a)(6)(v)(B)(viii); §685.304(a)(7)(i)(B)(ii)]

- The effect of accepting the loan on the borrower's eligibility for other forms of student financial assistance.
[HEA §485(l)(2)(A); §682.604(f)(6)(vi); §685.304(a)(6)(v)(B)(vi)]

- The school's definition of half-time enrollment during both regular and summer terms and the consequences of not maintaining half-time enrollment.
[HEA §485(l)(2)(E); §682.604(f)(6)(ix); §685.304(a)(6)(v)(B)(ix)]

- The importance of contacting the appropriate offices at the school if the borrower withdraws prior to completing the program so that the school can provide required exit counseling that will include information on the borrower's repayment options and loan consolidation.
  [HEA §485(l)(2)(F); §682.604(f)(6)(x); §685.304(a)(6)(v)(B)(x)]

- The name and contact information for the individual the borrower may contact if the borrower has any questions about the borrower's rights and responsibilities, or the terms and conditions of the loan.
  [HEA §485(l)(2)(K); §682.604(f)(6)(xii); §685.304(a)(6)(v)(B)(xii)]

- The obligation to repay the full amount of the Stafford or Grad PLUS loan, even if the student borrower does not complete the program, is unable to obtain employment upon completion, does not complete the program within the regular time frame normally required for program completion, or is otherwise dissatisfied with or does not receive the educational or other services that the borrower purchased from the school (the school or the school designee must provide this information to all of the school's student borrowers except those who receive a loan made or originated by the school).
  [HEA §485(l)(2)(H); §682.604(f)(6)(iv); §685.304(a)(6)(iv)]

- Sample monthly repayment amounts based on a range of borrower levels of indebtedness or on the average indebtedness of the loan types applicable to the borrower, as follows:

  – Stafford loan borrowers.

  – Student borrowers with Stafford and Grad PLUS loans at the same school and in the same program of study at the same school.
    [HEA §485(l)(2)(G)(ii); §682.604(f)(6)(v) and §682.604(f)(7)(i)(B); §685.304(a)(6)(v)(A) and (B)]

- The availability of the National Student Loan Data System (NSLDS), where and how it can be accessed, and how the borrower can use the information found there.
  [HEA §485(l)(2)(J); §682.604(f)(6)(xi); §685.304(a)(6)(v)(B)(xi)]

- The likely consequences of default, including adverse credit reports, federal delinquent debt collection procedures, under federal law, and litigation.
  [HEA §485(l)(2)(H); §682.604(f)(2)(iii) and §682.604(f)(6)(iii); §685.304(a)(6)(iii)]

For a Grad PLUS borrower who has received a prior Stafford or Federal Direct Stafford loan, a school must ensure that the following information is provided:

- Sample monthly repayment amounts based on a range of borrower levels of indebtedness or on the average indebtedness of borrowers with Stafford and Grad PLUS loans at the same school or in the same program of study at the same school.

- A notice that includes all of the following information:

  – The maximum interest rate for a Stafford loan and the maximum interest rate for a Grad PLUS loan.

  – Information regarding the periods when interest accrues on a Stafford loan and periods when interest accrues on a Grad PLUS loan.

  – The point at which a Stafford loan enters repayment and the point at which a Grad PLUS loan enters repayment.
    [§682.603(d)(1)(i) through (iii); §682.604(f)(7)(i) through (iv); §685.304(a)(7)(i)]

A school may provide the information required in this notice in its financial aid award letter or by another means. However, a school must provide the notice to a Grad PLUS borrower who has not requested his/her maximum Stafford eligibility before the school certifies a Grad PLUS loan for the borrower. See Subsection 6.15.C for more information.

A school may provide comprehensive entrance counseling materials that meet the minimum entrance counseling requirements for Grad PLUS borrowers with prior Stafford loans and Grad PLUS loan borrowers without prior Stafford loans.

To improve a student's understanding of his or her loan repayment obligation, the Department recommends that the school provide the following additional information as part of entrance counseling provided to a Stafford borrower:

- 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, including loan limits, loan fees, and interest rates.
- 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.
- A reminder to the student to keep the lender informed of any changes to his or her name, address, telephone number, Social Security number, or enrollment status.
- A summary of the student's rights and responsibilities.
- An overview of repayment, deferment, forbearance, cancellation options and conditions, loan consolidation, and refinancing options that are available to the student.
- Information on the consequences of borrowing several education loans and of delinquency and default.
- 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 (SAP).
- A detailed disclosure of the school's refund policy.
- General information on budgeting living expenses and other aspects of personal financial management.

A school must maintain a record to substantiate the school's compliance with the entrance counseling requirement for each borrower. For detailed information on entrance counseling, a school may consult §682.604(f) and the 09-10 FSA Handbook, Volume 2, Chapter 6, pp. 2-78 to 2-84.
[§682.604(f)(8); §685.304(a)(9); DCL GEN-98-25/98-G-315/98-L-211; DCL GEN-99-9]

## 4.4.D Exit Counseling

A school must ensure that exit counseling is conducted shortly before any Stafford or Grad PLUS loan borrower ceases enrollment on at least a half-time basis. The school or another party may conduct exit counseling in person, by audiovisual presentation, or by interactive electronic means. The school must ensure that an individual with expertise in the Title IV programs is reasonably available shortly after the exit counseling has been conducted to answer the borrower's questions.

If a borrower withdraws without the school's prior knowledge, or fails to complete the required exit counseling, the school must ensure that exit counseling was provided through interactive electronic means or by mailing written materials to the borrower at his or her last known address within 30 days after learning that the borrower withdrew from school or failed to complete the exit counseling as required. For a student borrower enrolled in a study-abroad program that the home institution approves for credit, or in a correspondence program, the school may, as an alternative to in-person, audiovisual, or interactive electronic means, provide written exit counseling materials by mail within 30 days after the student completes the program.
[§682.604(g)(1); §685.304(b)(1)–(3)]

When counseling is conducted by another party, the school remains responsible for ensuring that each borrower receives the counseling materials and participates in and completes exit counseling. A school must maintain a record to substantiate the school's compliance with exit counseling requirements for each borrower.
[§682.604(g)(3) and (4); §685.304(b)(6) and (7)]

The school must ensure that the borrower provides the school with his or her current name, address, Social Security number, references, and driver's license number and state of issuance (if any). The school also must ensure that the student borrower provides his or her permanent address, the name and address of his or her expected employer (if known), and the address of his or her next of kin. The school must ensure that this information is provided to each guarantor listed in the borrower's records within 60 days after the borrower provides the information.
[§682.604(g)(2)(ix); §685.304(b)(4)(xiii)]

The school must ensure that information on the following subjects is provided to the borrower during exit counseling:

- The average anticipated monthly repayment amount based on the borrower's indebtedness or based on the average indebtedness of Stafford loans or a combination of Stafford and Grad PLUS loans, depending on the types of loans the borrower has obtained, at the same school or in the same program of study at the same school.
  [§682.604(g)(2)(i); §685.304(b)(4)(i)]

- Available repayment schedules including standard, graduated, extended, income-sensitive, and income-based, including a description of the different features of each repayment schedule, sample information showing the average anticipated monthly payments under each, and the difference in interest paid and total payments under each.
  [HEA §485(b)(1)(A)(i); §682.604(g)(2)(ii); §685.304(b)(4)(ii); DCL GEN-08-12/FP-08-10]

- Debt-management strategies that would facilitate repayment.
  [HEA §485(b)(1)(A)(ii); §682.604(g)(2)(v); §685.304(b)(4)(v)]

- An explanation of the borrower's options to prepay each loan, pay each loan on a shorter schedule, and change repayment plans.
  [HEA §485(b)(1)(A)(iii)]

- The terms and conditions under which the borrower may defer or forbear repayment, or obtain a full or partial discharge, forgiveness, or cancellation of the principal and interest on a Title IV loan, including forgiveness and discharge benefits available to a FFELP borrower who consolidates his or her loan into the Federal Direct Loan Program (FDLP).
  [HEA §485(b)(1)(A)(iv) and (v); §682.604(g)(2)(viii); §685.304(b)(4)(ix)]

- The seriousness and importance of the repayment obligation that the borrower has assumed.
  [§682.604(g)(2)(vi); §685.304(a)(6)(ii)]

- The likely consequences of default, including adverse credit reports, federal delinquent debt collection procedures, federal offset, and litigation.
  [HEA §485(b)(1)(A)(vi); §682.604(g)(2)(vii); §685.304(b)(4)(viii)]

- The effects of obtaining a Consolidation loan, including all of the following:
  - The total interest to be paid, the fees to be paid, and the length of repayment.
  - How consolidation affects a borrower's underlying loan benefits, including grace periods, loan forgiveness, cancellation, and deferment opportunities.
  - That the borrower has the option to prepay the Consolidation loan or to change repayment plans.
  - A statement that borrower benefits vary among lenders.

  [HEA §485(b)(1)(A)(vii); §682.604(g)(2)(iv); §685.304(b)(4)(iv)]

- A general description of the types of tax benefits that may be available to the borrower.
  [HEA §485(b)(1)(A)(viii)]

- The availability of the Student Loan Ombudsman's Office.
  [§682.604(g)(2)(x); §685.304(b)(4)(x)]

- The use of the Federal Stafford Loan Master Promissory Note (Stafford MPN).
  [§682.604(g)(2)(vi); §685.304(a)(6)(i)]

- The obligation to repay the full amount of the loan—even if the borrower has not completed the program, does not complete the program within the regular time frame for program completion, is unable to obtain employment upon completion, or is otherwise dissatisfied with or does not receive the educational or other services the borrower purchased from the school. (The school or the school designee must provide this information to all of the school's borrowers except those who receive a loan made or originated by the school).
  [§682.604(g)(2)(vi); §685.304(b)(4)(vii)]

- The availability of Title IV loan information in the National Student Loan Data System (NSLDS) and how it can be used to obtain information on the status of the borrower's loans. In addition, a school must ensure that the borrower is provided the NSLDS disclosure form developed by the Department.
  [HEA §485(b)(1)(A)(ix) and §485B(d)(3)]

- A printed or an electronic copy of the Department's publication that describes the federal student aid programs.
  [HEA §485(b)(1)(A)(iv) and §485(d)(1)]

*NOTE: As of this writing, the Department has not informed the FFELP community which of its publications it intends to use to fulfill the requirements described in the last two bullets above.*

To improve a borrower's understanding of his or her loan repayment obligation, the Department recommends that the school provide the following additional information as part of exit counseling provided to a borrower:

- The current name and address of the borrower's lender(s).
- An explanation of how to complete deferment forms and prepare correspondence to the lender.
- A strong recommendation to the borrower to keep copies of all correspondence from and to the lender about his or her loans.
- A reminder to the borrower that he/she must make payments on loans even if the borrower does not receive a payment booklet or a billing notice.

Additional information that the Department recommends including in exit counseling can be found in the 09-10 FSA Handbook, Volume 2, Chapter 6, pp. 2-82 to 2-83.

## 4.4.E Private Education Loan Information

A school or an institution-affiliated organization that provides information regarding a private education loan from a lender to a prospective borrower must provide all of the following disclosures to the prospective borrower, regardless of whether the school or the institution-affiliated organization participates in a preferred lender arrangement:

- The information that the Board of Governors of the Federal Reserve System (Federal Reserve Board) requires to be disclosed under the Truth in Lending Act (TILA). A school may rely upon the information it obtains from a private education loan lender on the Private Loan Application and Solicitation Model form approved by the Federal Reserve Board or in another format that contains the same information as on the model disclosure form to meet this requirement. For more information about the Private Loan Application and Solicitation Model form, see the final rules published in the *Federal Register* dated August 14, 2009, Vol. 74, No. 156, pp. 41237 and 41238.
- A statement that the prospective borrower may qualify for Title IV loan or grant funds.
- A statement that the terms and conditions of Title IV loans may be more favorable than the provisions of private education loans.

[§601.11(a) and (b)]

In addition, a school or an institution-affiliated organization must ensure that information regarding private education loans is presented in such a manner as to be distinct from information regarding Title IV loans.
[§601.11(c)]

### Private Education Loan Applicant Self-Certification Form

Upon the request of an admitted or enrolled student, or the parent of an admitted or enrolled student who is a private education loan applicant, including a student or parent who is an applicant for a private loan made by the school, the school must provide the applicant with all of the following:

- The Private Education Loan Applicant Self-Certification form in paper or electronic format. A school may provide the self-certification form by posting the form on its Website or the school may provide the form directly to the applicant through the school's financial aid office or another designated office at the school. The school must provide the form to an applicant who requests it even if the private education loan for which the applicant is applying will be made by the school.
  [§601.11(d); §668.14(b)(29)(i)]
- Information that is necessary for the student or parent to complete the form, if the school possesses the information, includes all of the following:
  - The student's cost of attendance (COA).
  - The amount of estimated financial assistance (EFA) that the school expects the student to receive, including amounts used to replace the expected family contribution (EFC).
  - The amount that is the difference between the student's COA and EFA (i.e., unmet financial need).
    [§601.11(d); §668.14(b)(29)(i)(A) through (C)]

A school is not required to update the information necessary for the student or parent to complete the form in a case when the information later changes. A school may, but is not required to, provide the self-certification form and the information necessary to complete the form directly to the private education loan lender.

In addition, at the request of the private education applicant, the school must discuss with the applicant the availability of federal, state, and institutional financial aid. [§668.14(b)(29)(ii)]

## 4.5 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 the 09-10 FSA Handbook, Volume 2, Chapter 9, pp. 2-105 to 2-111. 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. [§668.24(a)(1)]
- The eligibility of the school's educational programs for FFELP funds. [§668.24(a)(2)]
- The school's administration of the FFELP in accordance with all applicable requirements. [§668.24(a)(3)]
- The school's financial responsibility. [§668.24(a)(4)]
- Information included in any application for FFELP funds. [§668.24(a)(5)]
- The school's delivery of FFELP funds. [§668.24(a)(6)]

### 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. [§668.24(b)(2)(i)]
- Separate general ledger control accounts and related subsidiary accounts that identify each FFELP transaction. [§668.24(b)(2)(ii)]

### Loan-Related Records

The records that a school must maintain include, but are not limited to:

- A record of any passive or affirmative confirmation processes the school used in support of the Master Promissory Note (MPN). The documentation may be kept in paper or electronic format. Because this may affect the enforceability of loans, the documentation must be retained indefinitely. [§682.610(b)(6); 09-10 FSA Handbook, Volume 2, Chapter 9, p. 2-108]
- Documentation of the process under which either the school or lender obtains the borrower's requested loan amount for a loan made under a PLUS Application and Master Promissory Note (PLUS MPN). [§682.401(d)(4)(vi)]
- A record of the borrower's requested loan amount for a loan made under a PLUS MPN, if the school is the party responsible for obtaining this information. [§682.401(d)(4)(vi)]
- A record of any adjustments that the school receives to the PLUS loan borrower's requested loan amount.
- For parent PLUS loans made using the common PLUS application and promissory note, 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 the name of the dependent student on whose behalf the loan was made.
[§682.610(b)(6)]

- For loans made using either the Stafford MPN or the PLUS MPN, a copy of the loan certification—or certification data, if submitted electronically to a lender or a guarantor—including the name of the borrower, and for parent PLUS loans, the name of the dependent student on whose behalf the loan was made.
[§682.610(b)(1)]

- The cost of attendance (COA), estimated financial assistance (EFA), and expected family contribution (EFC) used to calculate the loan amount.
[§682.610(b)(2)]

- 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.
  [§668.24(c)(1)(iv)(A)]

  – The date and amount of each delivery of loan proceeds by the school to the student or parent borrower.
  [§668.24(c)(1)(iv)(B)]

  – The date and amount of any refund paid to or on behalf of the student and the method by which the refund was calculated.
  [§668.24(c)(2)(iv)(C)]

  – The payment of any refund to a lender or the Department.
  [§668.24(c)(2)(iv)(D)]

- The Student Aid Report (SAR) or the Institutional Student Information Record (ISIR).
[§668.24(c)(1)(i)]

- Documentation of each student or parent borrower's eligibility for FFELP funds, such as documentation of need, COA, verification, enrollment status, financial aid history, satisfactory academic progress (SAP), etc.
[§668.24(c)(1)(iii)]

- The school's receipt date for each disbursement of the loan.
[§668.24(c)(1)(iv)]

- For loans disbursed to the school by copayable check, the date the school endorsed each check.
[§682.610(b)(3)]

- 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 to the student's school account. For loans made using an MPN, the authorization for disbursement by EFT or master check on the initial or any subsequent loan is included on the MPN.
[§682.610(b)(5)]

- Any required reports or forms and any records needed to verify data reported in those reports or forms.
[§668.24(c)(1)(vi)]

- Documentation supporting the school's calculation of its completion and graduation rates.
[§668.24(c)(1)(vii); §682.610(b)(6); 09-10 FSA Handbook, Volume 2, Chapter 9, p. 2-107]

### 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 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)]

## 4.6 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.
  [§668.25(d)(1)(i)]

- The servicer has failed to submit required audit reports in a timely manner during the preceding 5 years.
  [§668.25(d)(1)(iii)]

- 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.
  [§668.25(d)(1)(ii)]

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.
  [§668.25(c)(1)]

- Refer to the Department any information indicating that the school may be engaged in fraud or other criminal misconduct in administering Title IV programs.
  [§668.25(c)(2)]

- Be jointly and severally liable with the school for the servicer's violations of program requirements.
  [§668.25(c)(3)]

- 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.
  [§668.25(c)(5)]

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.
[§668.25]

## 4.7 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.

## 4.8 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 Circular A-133. Copies of the *Audit Guide* may be obtained by calling the Department at 800-4-FED-AID. Copies of 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 Website:

www.whitehouse.gov/omb/circulars/index-education.html

### Waiver of Annual Audit Submission

At the request of a school, the Department may waive the annual audit submission requirement if the school meets all of the following criteria:

- Is not a foreign school.
  [§668.27(c)(1)]

- Disbursed less than $200,000 in Title IV program funds during each of the two completed award years preceding the school's waiver request.
  [§668.27(c)(2)]

- Agrees to keep records relating to each award year in the unaudited period for 2 years after the end of the record retention period specified in Section 4.5 for that award year.
  [§668.27(c)(3)]

- Has participated in Title IV programs under the same ownership for at least three award years preceding the school's waiver request.
  [§668.27(c)(4)]

- Is financially responsible as defined in Section 4.3 and does not rely on the alternative standards of Subsection 4.3.A to participate in Title IV programs.
  [§668.27(c)(5)]

- Is not on the reimbursement or cash monitoring system of payment.
  [§668.27(c)(6)]

- Has not been the subject of a limitation, suspension, fine, termination proceeding, or emergency action initiated by the Department or a guarantor in the 3 years preceding the school's waiver request.
  [§668.27(c)(7)]

- Has submitted its compliance audits and audited financial statements for the previous two fiscal years in accordance with and subject to Subsection 4.3.A, and no individual audit disclosed liabilities exceeding $10,000.
  [§668.27(c)(8)]

- Submits a letter of credit equaling 10% of the amount of Title IV program funds the school disbursed to or on behalf of its students during the award year preceding the school's waiver request. This letter must remain in

effect until the Department has resolved the audit covering the award years subject to the waiver. [§668.27(c)(9)]

If the Department grants the waiver, the school will not need to submit a compliance audit or audited financial statement until 6 months after one of the following:

- The end of the third fiscal year following the fiscal year for which the school last submitted a compliance audit and audited financial statement. [§668.27(b)(1)(i)]

- The end of the second fiscal year following the fiscal year for which the school last submitted compliance and financial statement audits, if the award year in which the school will apply for recertification is part of the third fiscal year. [§668.27(b)(1)(ii)]

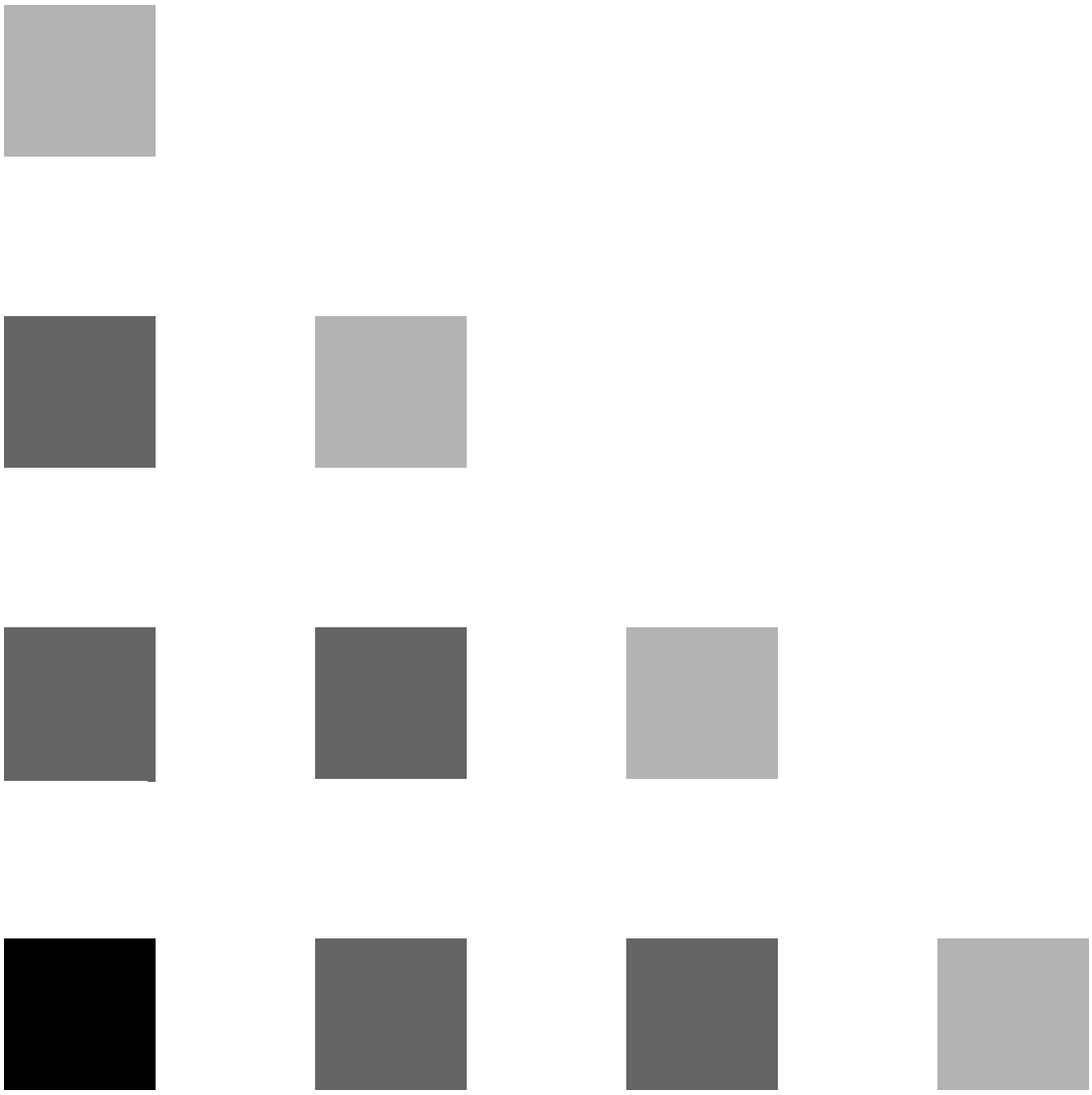
This page intentionally left blank.

# Tab Locator Page

## Remove this page and replace with tab divider.

# Tab Locator Page

## Remove this page and replace with tab divider.



# 5 Borrower Eligibility


| | | |
|---|---|---|
| 5.1 | Eligibility Requirements for Stafford and PLUS Loans | 1 |
| 5.1.A | General Borrower and Student Eligibility Requirements | 1 |
| 5.1.B | Student Eligibility Requirements | 2 |
| 5.1.C | Graduate or Professional Student and Parent PLUS Loan Borrower Eligibility Requirements | 3 |
| 5.2 | Federal Data Matches | 3 |
| 5.2.A | Citizenship Data Match | 4 |
| 5.2.B | Social Security Number Data Match | 5 |
| 5.2.C | Selective Service Registration Data Match | 6 |
| 5.2.D | Exceeding Loan Limits and Prior Overpayments Data Match | 6 |
| 5.2.E | Prior Default Data Match | 7 |
| 5.2.F | Department of Justice Data Match | 8 |
| 5.2.G | Department of Veterans Affairs Data Match | 8 |
| 5.3 | Reinstatement of Title IV Eligibility after Default | 8 |
| 5.4 | Prior Loan Written Off | 9 |
| 5.5 | Prior Loan Discharge Due to Total and Permanent Disability | 10 |
| 5.5.A | Prior Loan or TEACH Grant Service Obligation in a Conditional Discharge or Post-Discharge Monitoring Period Based on a Determination of Total and Permanent Disability | 13 |
| 5.5.B | Final Discharge of a Prior Loan Based on a Determination of Total and Permanent Disability | 11 |
| 5.6 | Effect of Exceeding Loan Limits on Eligibility | 13 |
| 5.7 | Effect of Bankruptcy on Eligibility | 13 |
| 5.8 | Effect of Fraud on Eligibility | 13 |
| 5.9 | Effect of Drug Conviction on Eligibility | 13 |
| 5.10 | Required High School Diploma or Equivalent | 14 |
| 5.11 | Ability-to-Benefit Provisions | 15 |
| 5.12 | Student Enrollment Requirements | 15 |
| 5.13 | Use of Distance Education and Correspondence in Programs of Study | 16 |
| 5.13.A | Distance Education Program of Study | 16 |
| 5.13.B | Correspondence Program of Study | 17 |
| 5.14 | Foreign Schools and Study-Abroad Programs | 17 |
| 5.14.A | Study at Participating Foreign Schools | 17 |
| 5.14.B | Study-Abroad Programs | 17 |
| 5.15 | Eligibility Requirements Specific to Transfer Students | 17 |
| 5.15.A | Financial Aid History for Transfer Students | 17 |
| 5.15.B | Students Who Transfer after Full Disbursement of the Loan | 18 |
| 5.16 | Multiple School Enrollment | 18 |
| 5.17 | Ineligible Borrowers | 19 |
| 5.17.A | Ineligibility Based on Borrower Error | 19 |
| 5.17.B | Ineligibility Based on School Error | 20 |
| 5.17.C | Ineligibility Based on Lender Error | 21 |

This page intentionally left blank.

As part of the school's processing of a borrower's loan request, the school is required to certify that the borrower, or, in the case of a parent PLUS loan, both the borrower and the dependent student, are eligible for FFELP loan funds. Chapter 5 describes the borrower eligibility criteria for Federal Stafford and PLUS loans and some of the ways in which schools may obtain the information necessary to determine the borrower's eligibility.

## 5.1 Eligibility Requirements for Stafford and PLUS Loans

All recipients of Stafford and PLUS loans must meet certain eligibility criteria. This section outlines the criteria—those that apply to all students and borrowers, those that apply specifically to students and student borrowers, and those that apply specifically to parent borrowers.

## 5.1.A General Borrower and Student Eligibility Requirements

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

- The individual must be a U.S. citizen or national, or eligible noncitizen, as applicable (see Subsection 5.2.A).
  [§668.33(a)]

- The individual must provide his or her valid Social Security number (see Subsection 5.2.B).
  [§668.32(i)]

- The individual must not be in default on any federal education loan (see Subsection 5.2.E for acceptable resolutions).
  [§668.32(g)(1)]

- The individual must not have been convicted of, or have pled guilty or *nolo contendere* to, a crime involving fraud in obtaining Title IV financial assistance, unless the student or parent borrower repays in full the funds that were obtained fraudulently (see Section 5.8 for acceptable resolutions).
  [§668.32(m)]

- 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.D).
  [§668.32(g)(4)]

- The individual must not have borrowed in excess of any annual or aggregate Federal Stafford loan limit (see Section 6.11).
  [§668.32(g)(2)]

- 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 5.17.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.
  [§682.412]

- The individual must not have property subject to a judgment lien for a debt owed to the United States.
  [§668.32(g)(3)]

- 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 Section 5.4).

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

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

## 5.1.B
## Student Eligibility Requirements

In addition to meeting the requirements of Subsection 5.1.A, each student who is seeking a Stafford loan or a Grad PLUS loan—and each student for whom a parent borrower is seeking a PLUS loan—must meet the following eligibility requirements:

- The student must have—and may self-certify that he or she has—at least a high school diploma or the recognized equivalent of a high school diploma (see Section 5.10), or the student must meet one of the following standards:
  [§668.32(e)(1)]

  - The student must be beyond the age of compulsory school attendance in the state in which the postsecondary school is located. See below for additional information about home-schooled students who are under the age of compulsory school attendance.

  - The student must have—and may self-certify that he or she has—completed a secondary school education in a home school setting that is treated as a home or private school under applicable state law. Some states issue a secondary school completion credential to home-schooled students. If this is the case in the state in which the student was home schooled, the student must obtain this credential in order to qualify for Title IV aid. If a school's policy permits students to self-certify completion of a secondary school education, the school may permit the home-schooled student to self-certify that he or she received this state-issued credential. An underage home-schooled student is considered to be beyond the age of compulsory school attendance in the state in which the postsecondary school is located if that state does not consider the student to be truant once he or she has completed a home-school program, or if that state would not require the student to attend school or continue to be home-schooled.
    [§668.32(e)(4); DCL GEN-02-11; 11-12 FSA Handbook, Volume 1, Chapter 1, pp. 1-7 to 1-8]

- To receive any Title IV aid, including a parent PLUS loan, the 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); HEA §484(a)(4)(A); §668.32(h); §668.164(g)(2)(i)]

- The student must be enrolled or accepted for enrollment on at least a half-time basis in an eligible program at a participating school. See Section 5.12 for student enrollment requirements.
  [§668.32(a)(1)(i) and (iii)]

- The student, if currently enrolled, must be maintaining satisfactory academic progress (SAP), as determined by the school according to federal regulations and the school's policy. (See Section 8.4 for information on SAP requirements.)
  [§668.32(f)]

- The student must not be serving in a medical internship or residency program required of doctors of medicine, osteopathy, and optometry. 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.
  [§682.201(a)(9); DCL GEN-90-33, Q&A #16]

- Unless exempt, a male student must register with the Selective Service. A female student is exempt from the Selective Service registration requirement (see Subsection 5.2.C).
  [§668.32(j); §668.37]

- 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.

- The student must not have had his or her eligibility for Title IV aid denied when sentenced by a court due to conviction of possession or distribution of a controlled substance, under the authority of the Anti-Drug Abuse Act of 1988. A student whose financial aid eligibility is denied as part of the penalty for 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 U.S. Department of Education if the student wishes to contest the finding.

- The student must not have been convicted of a state or federal offense involving the possession or sale of an illegal drug that occurred while the student was enrolled in school and receiving Title IV aid (see Section 5.9). Any student who applies for federal student aid and reports such a conviction on his or her

FAFSA will receive a warning on his or her Student Aid Report (SAR) indicating that a conviction for the possession or sale of an illegal drug may result in the loss of the student's eligibility for Title IV aid. [An illegal drug is a controlled substance as defined in section 102(6) of the Controlled Substance Act, and does not include alcohol or tobacco.]
[HEA §484(r)(1); §668.40; DCL GEN-06-05]

- The student must not be incarcerated at the time funds are disbursed or delivered.
[§668.32(c)(3)]

- The student must meet other applicable provisions of this chapter.
[§668.32(k)]

## 5.1.C
## Graduate or Professional Student and Parent PLUS Loan Borrower Eligibility Requirements

For purposes of obtaining a PLUS loan, an eligible parent borrower is a student's biological or adoptive mother or father. The spouse of a parent who is remarried is also an eligible parent borrower if the spouse's income and assets would have been taken into account when calculating a dependent student's expected family contribution (EFC). All of a dependent student's eligible parent borrowers may borrow separately to provide for the educational expenses of the student—provided that the combined borrowing of the parent borrowers does not exceed the calculated cost of attendance (COA) minus estimated financial assistance (EFA).
[§668.2(b); §682.201(b)(2); DCL GEN-98-26]

To be eligible for a parent 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. The student must have completed a FAFSA. A parent may not receive a PLUS loan on behalf of a student serving in a medical internship or residency program required of doctors of medicine, osteopathy, and optometry.
[§668.164(g)(2)(i); §682.201(c)]

To be eligible for a Grad PLUS loan, a graduate or professional student borrower must be applying for the loan to pay educational costs incurred for at least half-time enrollment in a graduate or professional program at a participating school. Before applying for a Grad PLUS loan, the borrower must submit a completed Free Application for Federal Student Aid (FAFSA) and the school must determine the student's maximum eligibility for subsidized and unsubsidized Stafford loan funds. However, the student may decline the Stafford loan and the school may not require the student to accept Stafford loan funds as a condition of applying for a Grad PLUS loan.
[DCL FP-06-05]

Each PLUS loan borrower must certify a statement of educational purpose. A statement of educational purpose is included on the Federal PLUS Loan Application and Master Promissory Note (PLUS MPN). By signing the PLUS MPN, the borrower certifies that he or she will comply with the statement of educational purpose.
[§668.32(h); §682.201(b)(1); §682.201(c)(1)(v)]

Each PLUS loan borrower must be determined not to have adverse credit to be eligible for a PLUS loan (see Subsections 7.1.B and 7.1.C).
[§682.201(b)(4)]

## 5.2
## Federal Data Matches

When a student submits a completed Free Application for Federal Student Aid (FAFSA), the Department of Education assists schools in determining a student's eligibility as a Stafford loan borrower, a Grad PLUS loan borrower, or as the dependent student of a parent PLUS loan borrower. The Department conducts federal data matches concerning the citizenship, Social Security number, Selective Service registration, student financial aid history information, and veteran status that the student reports or certifies on the FAFSA. In addition, the Department conducts data matches on individuals convicted of federal or state drug offenses subject to denial of benefits under court orders. The results of the data matches with the Department of Homeland Security, United States Citizenship and Immigration Service (USCIS), Social Security Administration (SSA), Selective Service System (SSS), National Student Loan Data System (NSLDS), and Department of Veterans Affairs (VA) are reported to the school and the student. For more information about confirming a student's citizenship status, Social Security number, Selective Service registration, student financial aid history information, denial of Title IV benefits due to court orders, or veteran status, see Subsections 5.2.A, 5.2.B, 5.2.C, 5.2.D, 5.2.E, and 5.2.G. Schools may also obtain more information about the Department's data matches from the 09-10 FSA Handbook, Application and Verification Guide, Chapter 2, p. AVG-24; Volume 1, Chapter 1, p. 12; and Volume 1, Chapters 2 to 5, pp. 1-21 to 1-65.

# 5.2.A
# Citizenship Data Match

Generally, each eligible borrower and student must be a U.S. citizen or national, a 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.
[§668.33(a)]

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.
[§668.33(b)(1)]

Information on citizenship status and documentation may be found in the 09-10 FSA Handbook, Volume 1, Chapter 2, pp. 1-21 to 1-44. Schools are cautioned against attempting to establish citizenship status without reviewing this source.
[HEA §484(g) and (h); §668.130 through 133; DCL GEN-92-21 (section XXIX, subsection k)]

### U.S. Citizens and Nationals

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 Social Security Administration (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.
[§668.33(d)(2)]

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-560 or N-561) from the U.S. Department of Homeland Security, United States Citizenship and Immigration Service (USCIS).
- A Certificate of Naturalization (N-550 or N-570) issued by the USCIS through a federal or state court, or through administrative naturalization after December 1990 to those who are individually naturalized.
- A Consular Report of Birth Abroad (FS-240), a Certification of Birth (DS-1350), or a Certificate of Birth (FS-545) issued prior to November 1990. These 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 or passport card (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 09-10 FSA Handbook, Volume 1, Chapter 2, p. 1-23).

### Eligible Noncitizens

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

- A U.S. permanent resident alien with a Permanent Resident Card (Form I-551 since 1977) or a Resident Alien Card (Form I-151 issued prior to June 1978).
- A refugee with an Arrival/Departure Record (CBP Form I-94) or the new Departure Record (Form I-94A, which is used at land border ports of entry) with the endorsement "Processed for I-1551. Temporary Evidence of Lawful Admission for Permanent Residence. Valid until _____. Employment authorized." The form will have an A-number annotated on it and is acceptable if the expiration date has not passed. These records are issued by the USCIS showing one of the following designations (indicating that the refugee is in the U.S. 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. §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).

- A victim of human trafficking, or one of certain relatives of such a victim, as certified by the U.S. Department of Health and Human Services (HHS) [pursuant to 22 U.S.C. §7101 Victims of Trafficking and Violence Protection Act].
  [DCL GEN-06-09]

A school must verify the eligibility of a noncitizen. This may be done by performing a data match with another agency, such as the USCIS. If the student reports on the FAFSA that he or she is an eligible noncitizen (and, therefore, could be eligible for federal student aid) and reports an Alien Registration number, that information is checked against the database maintained by the USCIS. This process is 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 USCIS. 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 USCIS 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.

An exception to this applies to victims of human trafficking. If the USCIS does not have the eligibility status of victims of human trafficking in its system, the student will fail the data match. The school must collect a copy of the student's Certification Letter or Eligibility Letter that was issued by the HHS. The school must also call the HHS Office of Refugee Resettlement to confirm eligibility and document the date, time, and results of the call.

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

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

The school must retain copies of documentation provided by an eligible noncitizen. The Permanent Resident Card (Form I-551) or a Resident Alien Card (Form I-151), Arrival/Departure Record (CBP Form I-94) or the new Departure Record (Form I-94A), 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]

## 5.2.B
## Social Security Number Data Match

When a student submits a Free Application for Federal Student Aid (FAFSA), the U.S. Department of Education will conduct a data match with the Social Security Administration to verify the student's Social Security number (SSN). If the Social Security Administration confirms that SSN, the Department will notify the school and the student. If the data match fails to confirm the student's SSN, or if the school has reason to believe that the verified SSN 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 SSN.
[§668.36(a)(1) and (3)]

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 SSN is pending. The school may not deliver any Title IV program funds to a student until the school is satisfied that the student's reported SSN is accurate. The school must notify the Department of the student's accurate SSN if the student demonstrates the accuracy of a number other than the number that the student included on the FAFSA.
[§668.36(a)(4); §668.36(b)(1) and (2)]

See Subsection 8.7.G for information regarding unverified SSNs.

## 5.2.C
## Selective Service Registration Data Match

Unless exempt, a male student must register with the Selective Service. When a male student submits a Free Application for Federal Student Aid (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.
[§668.37(a)(1) and (b)]

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 the school receives a student's response to a failed data match after the end of the loan period, the school would be unable to certify the loan—even if the verification documentation was received within 30 days.
[§668.37]

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

For more information on Selective Service registration requirements, see the 09-10 FSA Handbook, Volume 1, Chapter 5, pp. 1-61 to 1-65.

## 5.2.D
## Exceeding Loan Limits and Prior Overpayments Data Match

When a student submits a Free Application for Federal Student Aid (FAFSA), the Central Processing System (CPS) matches the student's information against his or her financial aid history in the National Student Loan Data System (NSLDS) to see if the student owes a Title IV overpayment or has exceeded an applicable Stafford annual or aggregate loan limit. The school must resolve any conflict between the NSLDS and other information prior to delivering Title IV aid. For more information on the NSLDS, see the 09-10 FSA Handbook, Volume 1, Chapter 3 and the NSLDS reference materials provided on the Information for Financial Aid Professionals (IFAP) Website. See Subsection 6.11.E for information on resolving a situation in which a borrower inadvertently exceeds an applicable Stafford annual or aggregate loan limit.

A borrower is ineligible for Title IV aid if he or she is liable for an overpayment to any Title IV program. By certifying a Stafford or PLUS loan, a school certifies that the student borrower—or the parent or dependent student, in the case of a parent PLUS loan—does not, to its knowledge, owe a grant overpayment with an original balance of more than $50 to a grant program resulting from a return of Title IV funds calculation, or of $25 or more under the Federal Perkins Loan Program or under a Title IV grant program that resulted from a circumstance other than a return of Title IV funds calculation. The tolerance does not apply to the remaining balance of an original overpayment amount that has been reduced by payments received to less than the applicable tolerance amount. In this case, even though the remaining balance of the overpayment is less than the applicable tolerance amount, the borrower is responsible for repaying the overpayment in full or making satisfactory arrangements to repay it before the borrower can regain Title IV eligibility.
[§668.22(h)(3)(ii)(B); §668.32(g)(4); §668.35(e)(3)]

A school must not certify a loan for a borrower who owes a grant overpayment for which the original balance exceeded the applicable tolerance amount unless one of the following occurs:

- The school makes an adjustment to correct the overpayment in the same award year.
- The borrower repays the overpayment in full.
  [§668.35(e)(1)]
- The borrower makes satisfactory arrangements with the school or the Department for the repayment of the overpayment.
  [§668.35(e)(2)]

The school must retain documentation that clearly substantiates its determination that any overpayment has been resolved. Documentation stating that the reporting entity has "no record" of the student's overpayment is not considered adequate.
[DPL GEN-00-18]

# 5.2.E
# Prior Default Data Match

When a student submits a Free Application for Federal Student Aid (FAFSA), the Central Processing System (CPS) matches the student's information against his or her financial aid history in the National Student Loan Data System (NSLDS) database to see if the student is in default on a Title IV loan. The school must resolve any conflict between the NSLDS and other information prior to delivering Title IV aid. For more information on the NSLDS, see the 09-10 FSA Handbook, Volume 1, Chapter 3 and the NSLDS reference materials provided on the Information for Financial Aid Professionals (IFAP) Website.

An individual who is in default on any Title IV loan is ineligible to receive any Title IV aid, including the benefit of a parent PLUS loan, until the default is resolved in one of the ways described below. However, a parent's unresolved default on a Title IV loan does not adversely impact a dependent student's eligibility for Title IV aid, except that a school must not certify a parent PLUS loan for the defaulted parent borrower.
[09-10 FSA Handbook, Volume 1, Chapter 3, pp. 1-47 to 1-48 and Chapter 7, p. 1-74]

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 borrower during the loan process and on NSLDS financial aid history information unless the school receives conflicting information. The school must reconcile all conflicting information before delivering any Title IV aid to a borrower who has an unresolved default on a Title IV loan, and must retain documentation that clearly substantiates its determination that the borrower's prior default was resolved. Documentation stating that the reporting entity has "no record" of the borrower's default is not considered adequate.
[§668.19; DCL GEN-96-13; DPL GEN-00-12; DPL GEN-00-18]

A borrower who has defaulted on any Title IV loan is eligible for a new loan only if each defaulted loan has been resolved. A defaulted FFELP loan may be resolved in one of the following ways:

- The defaulted loan is paid in full.
  [§668.35(a)(1)]

- The defaulted loan is discharged or determined to be dischargeable in a bankruptcy action.
  [§668.35(h)]

- The borrower's eligibility for Title IV aid is reinstated as a result of the borrower making satisfactory repayment arrangements with the loan holder. For more information on reinstatement, see Section 5.3.
  [§668.35(a)(2); §685.211(f)(1)]

- The defaulted loan is rehabilitated as a result of the borrower making nine voluntary, on-time, full monthly payments of a reasonable and affordable amount, during a period of 10 consecutive months, and each loan is purchased by a lender. For more information on loan rehabilitation, see Section 13.7.
  [HEA §428F(a)(1)(A); §682.405(a)(2)]

- The defaulted loan is discharged because the student for whom the Stafford or PLUS loan was obtained was unable to complete the program of study due to the school's closing.
  [§682.402(d); §685.214(b)(3)]

- The defaulted loan is discharged because the borrower's eligibility for the loan was falsely certified by the school.
  [§682.402(e); §685.215(a)(1)]

- The defaulted loan is discharged because the borrower is determined to be the victim of the crime of identity theft.

- The borrower makes satisfactory repayment arrangements on the defaulted loan and consolidates that loan, or the borrower agrees to repay a Consolidation loan under an income-sensitive repayment schedule. For more information on consolidating defaulted loans, see Section 15.2.
  [§682.201(d)(3)]

### Documentation Required to Prove Default Resolution

If the school learns that the borrower has defaulted on a prior loan, the school must obtain, before awarding additional Title IV aid, documentation from the NSLDS, 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 either a written certification from the guarantor regarding each defaulted loan or information accessed directly from a loan holder's database that a loan shown on the NSLDS as being in default is no longer in default. Access to loan data directly from a loan holder's database may be facilitated by the use of third-party Web-based products that display a loan holder's real-time data. To be used for purposes of determining a borrower's Title IV eligibility, such Web-based products

must obtain data directly from the relevant guarantor's, lender's, or servicer's system and must display the data without any modification. The school must retain an image of the information it obtains from the real-time Website that clearly identifies the borrower, the status of the debt, and the source of the data. For a guarantor that is not the holder of the defaulted loan(s) to guarantee a new loan, the school or the borrower must obtain documentation that the default has been resolved (such as a copy of the original promissory note stamped "paid in full," information accessed directly from a loan holder's database, or a letter from the holder of the defaulted loan(s) stating that the borrower has resolved the default). The documentation must be included with the new loan request when it is sent to the guarantor for guarantee processing, unless the information is already available to the guarantor.
[HEA §428F(b); §668.35; §682.200; §682.401(b)(4); April 1996 Supplement to DCL 96-G-287/96-L-186, Q&A #6; *NSLDS Newsletter* Number 12, June 2006]

▲ 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.

## 5.2.F
## Department of Justice Data Match

A separate data match is performed by the Central Processing System (CPS) against a file provided by the Department of Justice (DOJ). This data matching program provides information regarding individuals convicted of federal or state offenses involving drug trafficking or possession of a controlled substance who have been denied Title IV program benefits by federal or state courts. This ensures that federal student aid is not awarded to individuals subject to denial of these benefits under court orders. For more information on the DOJ data match, see the 09-10 FSA Handbook, Volume 1, Chapter 1, p. 1-12.

## 5.2.G
## Department of Veterans Affairs Data Match

If a student has indicated on the Free Application for Federal Student Aid (FAFSA) that he or she is an eligible veteran of the U.S. Armed Forces, the student is considered to be independent and does not have to provide parental income and asset information to apply for Title IV aid. The Central Processing System (CPS) matches data with the Department of Veterans Affairs (VA) to confirm that an applicant who states that he or she is a veteran on the FAFSA has engaged in active duty in the U.S. Armed Forces for purposes other than training, or was a cadet or midshipman at a service academy; and was released under a condition other than dishonorable. For more information on the VA data match, see the 09-10 FSA Handbook, Application and Verification Guide, Chapter 2, p. AVG-26.

## 5.3
## Reinstatement of Title IV Eligibility after Default

A borrower with one or more defaulted Title IV loans, or defaulted Title IV loans for which a judgment has been obtained, may have his or her eligibility for Title IV aid reinstated by requesting reinstatement and making satisfactory repayment arrangements, and fulfilling those arrangements with the holder of each defaulted loan or with the holder of each defaulted loan for which a judgment has been obtained.
[§668.35(a) and (b); §682.401(b)(4)]

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.
[§682.412]

To have eligibility for Title IV aid reinstated, a borrower must make six 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 state offsets or federal Treasury offsets, wage garnishment, or income or asset execution will not count toward the six payments required for reinstatement. A lump sum prepayment of future installments does not satisfy the requirement for six consecutive monthly payments and will not reinstate a borrower's Title IV eligibility.
[§682.200(b)]

Upon receipt of the borrower's new loan request or request for reinstatement of eligibility, the guarantor will review the most recent 6-month period. Each of the six required payments must be received within 15 days of the due dates for the 6 months immediately preceding receipt of the request.
[§682.200(b) definition of *undergraduate*]

A borrower whose Title IV eligibility is reinstated 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. After a borrower's Title IV eligibility is reinstated, the borrower must continue to maintain satisfactory repayment arrangements on each loan that defaulted in order to continue to be eligible for additional Title IV aid.
[§682.200(b) definition of *undergraduate*]

A borrower may reestablish Title IV eligibility only once. If a borrower has reestablished his or her eligibility and then fails to maintain satisfactory payment arrangements on that defaulted loan, or a defaulted loan for which a judgment has been obtained, the borrower may not reestablish his or her eligibility again under these provisions. 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.
[§668.35(c); §682.200(b) definition of *undergraduate*]

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

## 5.4 Prior Loan Written Off

A borrower is ineligible for a FFELP loan if he or she has had a prior FFELP loan partially or totally written off by a guarantor (i.e., the guarantor has stopped all collection activity on the written-off portion). To become eligible to receive a new FFELP loan, a borrower must reaffirm the written-off loan, provide confirmation of that reaffirmation to the school, and meet the requirements of Subsection 5.2.D. Reaffirmation is the borrower's legally binding acknowledgment of a loan repayment obligation that has been partially or totally written off and agreement to the reinstatement of the borrower's repayment obligation. A borrower whose prior FFELP loan has been partially or totally written off by a lender is not required to reaffirm the written-off loan as a condition of eligibility for a new FFELP loan.

The reaffirmation may include, but is not limited to, the following:

- Making a payment on the loan.
  [§682.201(a)(4)(ii)(B)]

- Signing a new repayment agreement or promissory note that includes the original terms and conditions applicable to the loan being reaffirmed.
  [§682.201(a)(4)(ii)(A)]

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, court costs, and attorney fees. Any outstanding charges, such as interest, collection costs, late charges, court costs, or attorney fees, may be capitalized as of the date the loan is reaffirmed.
[§682.201(a)(4)(i); DCL 96-L-186/96-G-287, Q&A #4, #7, #8, #9, and #11]

## 5.5
## Prior Loan Discharge Due to Total and Permanent Disability

In some cases, loans that have been discharged due to the borrower's total and permanent disability may affect the borrower's eligibility for new loans. Eligibility may be based on the disposition of the borrower's discharge request or the date on which that request was processed.

## 5.5.A
## Prior Loan or TEACH Grant Service Obligation in a Conditional Discharge or Post-Discharge Monitoring Period Based on a Determination of Total and Permanent Disability

A borrower whose prior Title IV loan(s) is conditionally discharged or whose prior Title IV loan(s) or TEACH grant service obligation has been discharged and is in a 3-year post-discharge monitoring period based on a determination that the borrower is totally and permanently disabled, must do the following before a school may certify a new Stafford or PLUS loan for the borrower:

- Submit a request to the Department's Conditional Discharge Disability Unit indicating that the conditionally discharged loan(s) be returned to repayment.

- Advise the school that the borrower has begun the process of returning the conditionally discharged loan(s) or loan(s) in a post-discharge monitoring period to repayment.

Before a school may certify a new loan for such a borrower, the school must confirm that the borrower has initiated the process to return the loan(s) to repayment. The school also must determine whether the status of the loan (default or non-default) will trigger additional requirements before it certifies a new loan for the borrower. If the loan(s) was in default prior to being conditionally discharged or placed in a post-discharge monitoring period, the school may be required to document that the borrower has either made satisfactory repayment arrangements with the loan holder in order to reinstate Title IV eligibility or has rehabilitated the defaulted loan(s) (see Subsection 5.2.E).

A borrower must do the following before he or she is eligible to receive a new Stafford or PLUS loan:

- Obtain a physician's statement certifying that the borrower may now engage in "substantial gainful activity."
  [§682.201(a)(6)(i)]

- Sign a statement acknowledging that any loan that has been conditionally discharged or is in a post-discharge monitoring period may not be discharged due to the same or any disability existing at the time the borrower applied for a total and permanent disability discharge or when 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)(6)(ii); §682.201(a)(7)(ii)(A)]

- Sign a statement acknowledging that collection activity will resume on any conditionally discharged loans or loans that are in a post-discharge monitoring period.
  [§682.201(a)(7)(ii)(B)]

- Acknowledge that he or she is once again subject to the terms of the TEACH grant agreement, if the grant recipient's service obligation has been discharged and the grant recipient is in a 3-year post-discharge monitoring period.
  [§682.201(a)(6)(iii)]

The school must not deliver any new loan funds until it confirms that the loan holder has returned to repayment the conditionally discharged loan(s) or loan(s) in a post-discharge monitoring period.
[§682.201(a)(5)]

If a loan is in either the 3-year conditional period, or the 3-year post-discharge monitoring period, as applicable, the discharge is terminated and the loan(s) is reinstated to the status it held prior to the initial discharge determination if either of the following occur within 3 years from the date that the physician completes and certifies the discharge application:

- The borrower receives a new TEACH grant.

- The borrower receives a new loan under any Title IV loan program (Federal Perkins Loan Program, FFELP, or Federal Direct Loan Program).

*Note:* If the borrower receives a new Consolidation loan that does not include any loans that are in a conditional discharge period or the 3-year post-discharge monitoring period, neither the conditional discharge period nor the final discharge itself, as applicable, terminate.

If a TEACH grant or Title IV loan was certified prior to the date the physician certified the discharge application, any proceeds of such grant or loan that are disbursed after the date of the physician's certification must be returned to the Department or to the loan holder, as applicable, within 120 days of the disbursement date(s) to preserve the borrower's discharge eligibility.

If the borrower's conditional discharge or final discharge is terminated, the Department reinstates collection activities on any loan on which collection activity had been previously suspended based on an initial determination of the borrower's total and permanent disability. (See Subsection 13.8.G for more information regarding the total and permanent disability loan discharge and Appendix G for the definition of "totally and permanently disabled.")
[§682.402(c)(4)(i); §685.213(b)(4)(i)]

*Note:* A loan that is discharged based on a determination by the U.S. Department of Veterans Affairs that the borrower is totally and permanently disabled is not placed in a conditional discharge or post-discharge monitoring period. See Subsection 5.5.B.
[DCL GEN-09-07/FP-09-05, Q & A 14]

▲ Schools and lenders are strongly encouraged to contact the guarantor if assistance is needed to determine or establish a borrower's eligibility after a total and permanent disability loan discharge.

## 5.5.B
## Final Discharge of a Prior Loan Based on a Determination of Total and Permanent Disability

This subsection applies to a borrower whose loan(s) was discharged and who completed the 3-year conditional period, or the 3-year post-discharge monitoring period, as applicable, or who had a loan(s) discharged based on a U.S. Department of Veterans Affairs (VA) determination that the borrower is totally and permanently disabled.

A borrower who has received a discharge of a prior loan based on a final determination that the borrower is totally and permanently disabled must do *all of the following* to be eligible to receive a new Stafford or PLUS loan:

- Obtain a physician's statement certifying that the borrower may now engage in "substantial gainful activity."
  [§682.201(a)(6)(i)]

- 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)(6)(ii)]

[DCL GEN-09-07/FP-09-05, Q & A 18]

For the purpose of receiving a new loan after a prior loan is discharged based on a determination of a borrower's total and permanent disability, a borrower must obtain the physician certification only once and the school should keep a copy of it in the student's file. However, the school must collect a new borrower acknowledgment statement from the borrower for each new loan he or she requests.
[10-11 FSA Handbook, Volume 1, Chapter 3, p. 1-49]

A borrower who has had a prior loan discharged based on a determination of the borrower's total and permanent disability before July 1, 2001, or whose loan(s) was discharged and the borrower completed the 3-year conditional period, or the 3-year post-discharge monitoring period, as applicable, is not required to reaffirm the discharged obligation. (See Subsection 13.8.G for more information regarding total and permanent disability loan discharge and Appendix G for the definition of "totally and permanently disabled.")

▲ Schools and lenders are strongly encouraged to contact the guarantor if assistance is needed to determine or establish a borrower's eligibility after a total and permanent disability loan discharge.

## Effect of Title IV Loan Status on Student Aid Eligibility — Figure 5-1

| Loan Status | Eligible for FFELP and Federal Perkins loans | Eligible for Federal Pell, SEOG, FWS, and LEAP |
|---|---|---|
| Defaulted | No | No |
| Written off after default | Yes[1] | Yes[1] |
| Conditional discharge or post-discharge monitoring period based on a determination of total and permanent disability | Yes[3] | Yes |
| Final discharge due to total and permanent disability | 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 based on 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.
[§682.201(a)(6)(i) through (iii); §682.402(c); §685.200(a)(1)(iv)]

[3] To be eligible, the applicant must *(a)* submit a request to the Department's Conditional Discharge Disability Unit indicating that the conditionally discharged loan(s) or loan(s) in a post-discharge monitoring period be returned to repayment and advise the school that the process of returning the conditionally discharged loan(s) to repayment has been initiated; *(b)* obtain a physician's statement certifying that the borrower may now engage in substantial gainful activity; *(c)* sign a statement acknowledging that any loan that has been conditionally discharged may not be discharged based on the same or any disability existing at the time the borrower applied for a total and permanent disability discharge or when the new loan is made, unless the disabling condition substantially deteriorates to the extent that the definition of total and permanent disability is met; and *(d)* sign a statement acknowledging that collection activity will resume on any conditionally discharged loan(s) or loan(s) in a post-discharge monitoring period.
[§682.201(a)(5); §682.201(a)(6)(i); §682.201(a)(7)(ii)(A) and (B)]

## 5.6
## Effect of Exceeding Loan Limits on Eligibility

The school may not, under any circumstances, award additional Title IV funds for a student who has exceeded applicable annual or aggregate loan limits. If the school determines that the student inadvertently violated the annual or aggregate loan limits, the school must give the student an opportunity to resolve the excess borrowing before making a final determination on the student's eligibility for additional Title IV assistance. To resolve eligibility problems created by the NSLDS reporting of excessive borrowing by a student, a school can rely upon either paper documentation or information it accesses directly from a loan holder's database. Access to information directly from a loan holder's database may be facilitated by the use of third-party Web-based products that display a loan holder's real-time data. The school must be able to verify that the loan being reviewed is the problematic loan. The school must retain an image of the information it obtains from the real-time Website that clearly identifies the borrower, the status of the debt, and the source of the data. (See Subsection 6.11.E.)
[§668.35(d); *NSLDS Newsletter* Number 12, June 2006]

## 5.7
## 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. Thus, a FFELP applicant is eligible for new loan funds despite the filing of a bankruptcy petition.
[DCL GEN-95-40]

#### 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. If circumstances other than the bankruptcy exist that would cause the school to reduce the borrower's loan amount, the financial aid administrator (FAA) may use professional judgment to refuse to certify a loan or to lower the loan amount. (See Subsection 6.15.E)
[§682.603(f)]

#### Reaffirmation

A Stafford or PLUS loan applicant who has had education loans previously discharged in bankruptcy is 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 in a bankruptcy action, the borrower is eligible for additional funds without reinstatement and without reaffirming the debt.
[DCL GEN-95-40]

## 5.8
## Effect of Fraud on Eligibility

A student or parent borrower who has been convicted of, or has pled guilty or *nolo contendere* to, a crime involving fraud in obtaining Title IV financial assistance is not eligible for additional Title IV funds until the student or parent borrower, as applicable, repays in full the funds that were obtained fraudulently. Title IV grant funds that were obtained fraudulently must be repaid to the Department; Title IV loan funds that were obtained fraudulently must be repaid to the holder of the loan. The student or parent borrower's eligibility under this provision is based on the certification provided in the Master Promissory Note (MPN). Regardless of the borrower's certification on the MPN, if either the school or the lender has conflicting information regarding the eligibility of the student or parent borrower, this discrepancy must be resolved before additional Title IV funds may be disbursed or delivered.

## 5.9
## Effect of Drug Conviction on Eligibility

As part of its consumer information disclosure requirements, a school must provide a separate, clear, and conspicuous written notice to the student about the penalty if the student is convicted of a drug-related offense that occurred while a student was enrolled in school and receiving Title IV aid. A school must provide the notice upon the student's enrollment at the school.
[HEA §485(k)(1)]

A student who is convicted of a state or federal offense involving the possession or sale of an illegal drug that occurred while the student was enrolled in school and receiving Title IV aid, is not eligible for Title IV funds. [An illegal drug is a controlled substance as defined by section 102(6) of the Controlled Substance Act and does not include alcohol and tobacco.] The Department determines the borrower's eligibility under this section

based on the student's self-certification on the Free Application for Federal Student Aid (FAFSA). The school is notified of the student's eligibility on the Institutional Student Information Record (ISIR). However, if the school has conflicting information regarding a drug conviction that affects the student's eligibility, this discrepancy must be resolved.
[HEA §484(r)(1); §668.40(a); DCL GEN-06-05]

Convictions that are reversed, set aside, or removed from the student's record, or a determination arising from a juvenile court proceeding, do not affect eligibility and do not need to be reported by the student.
[§668.40(a)(2)]

A student who is convicted of a drug-related offense that occurred while the student was enrolled in school and receiving Title IV aid loses Title IV eligibility as follows:

- For the possession of illegal drugs:
  - 1st offense: one year from the date of conviction.
  - 2nd offense: two years from the date of the second conviction.
  - 3rd offense: indefinitely from the date of the third conviction.
    [§668.40(b)(1)]
- For the sale of illegal drugs:
  - 1st offense: two years from the date of conviction.
  - 2nd offense: indefinitely from the date of the second conviction.
    [§668.40(b)(2)]

A school must provide a student who loses Title IV eligibility due to a drug-related conviction with a timely, separate, clear, and conspicuous written notice. The notice must advise the student of his or her loss of Title IV eligibility and the ways in which the student may regain that eligibility.
[HEA §485(k)(2)]

A student may regain eligibility at any time by successfully completing an approved drug rehabilitation program or successfully passing two unannounced drug tests conducted by an approved drug rehabilitation program, and by informing the school that he or she has done so. A student regains Title IV eligibility on the date he or she successfully completes the program, or in the case of a student who successfully passes two unannounced drug tests, on the date that the student passes the second unannounced drug test. A drug rehabilitation program is considered approved for these purposes if it includes at least two unannounced drug tests and meets one of the following criteria:
[HEA §484(r)(2)(B); §668.40(c)]

- The program received or is qualified to receive funds directly or indirectly under a federal, state, or local government program.
  [§668.40(d)(2)(i)]
- The program is administered or recognized by a federal, state, or local government agency or court.
  [§668.40(d)(2)(ii)]
- The program received or is qualified to receive payment directly or indirectly from a federally or state-licensed insurance company.
  [§668.40(d)(2)(iii)]
- The program administered or recognized by a federally or state-licensed hospital, health clinic, or medical doctor.
  [§668.40(d)(2)(iv)]

For a student whose Title IV eligibility is reinstated after a drug conviction, the maximum loan period that a school may certify is the academic year during which the student regains eligibility. However, the school may not certify eligibility prior to the date on which eligibility is regained. A student who loses eligibility during a loan period is immediately ineligible to receive subsequent disbursements of FFELP funds and is required to repay any Title IV funds received after the date he or she loses eligibility. Schools are not required to recalculate a student's loan amount.
[§668.40(c)]

## 5.10 Required High School Diploma or Equivalent

To be eligible for Title IV aid, the student must have a high school diploma or its equivalent. Historically some students may have been admitted under prior ability-to-benefit provisions; see History of Ability-to-Benefit Provisions, Appendix H.3. A school must develop and follow procedures to evaluate the validity of a student's claim of high school completion if the school or the Department has reason to believe that the student's high school diploma is not valid or the student obtained a diploma from an entity that does not provide secondary school education (see also Section 4.2).
[§668.16(p); §668.32(e)(1) and (2)]

The following are considered equivalent to a high school diploma for establishing Title IV eligibility:

- A General Education Development (GED) Certificate—or a state certificate issued after a student passes an approved examination that the state recognizes as an equivalent to the GED. [§668.32(e)(3)]

- An academic transcript in a recognized program. 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. [10-11 FSA Handbook, Volume 1, Chapter 1, p. 1-6]

## 5.11 Ability-to-Benefit Provisions

If a school is aware that a student has a disqualifying status that would not permit the student to be employed in the occupation for which the school's program prepares students, the student is not eligible to receive Title IV aid. 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. For information about false certification loan discharge based on ability-to-benefit provisions, see Subsection 13.8.D. [§682.402(e)(13)]

## 5.12 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. [§668.32(b)]

- 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 distance education subject to the limitations described in Section 5.13. [§668.38; §682.201(a)]

  - 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 5.14.B). [§668.39]

A student who has previously obtained a bachelor's or professional degree is eligible for loan assistance, provided he or she meets all applicable eligibility criteria.

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. [§668.32(a)(1)(ii)]

- *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 (e.g., the certificate may instead be granted by the state). A student who is not enrolled in a formal teacher certification program but who is taking a series of courses necessary to obtain certification from the state is also exempt from the degree requirements. The program, or series of courses, 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 or series of courses. This exemption 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. In addition, this exemption does not apply to students seeking a professional credential or certification that is required for employment as a non-teaching professional (e.g., a school administrator, nurse, or librarian), or to students enrolled in a teacher certification or recertification course that uses direct assessment rather than credit hours or clock hours to measure student progress.

  The school must develop a process to identify the student as pursuing teacher certification or recertification (e.g., collect a written statement from the student or have a special classification assigned by the school), and must document that the courses are required by the state for teacher certification or recertification. A student who is enrolled in a teacher-certification or recertification program is considered a fifth-year undergraduate student (see Section 6.11 for applicable loan limits).
  [HEA §484(b)(4); §668.2; §668.32(a)(1)(iii); 10-11 FSA Handbook, Volume 1, Chapter 1, pp. 1-4 to 1-5]

For more information about defining a student's enrollment status, see Section 6.9.

# 5.13
# Use of Distance Education and Correspondence in Programs of Study

A student's enrollment in distance education or correspondence courses can affect his or her eligibility for Stafford loans and Grad PLUS loans, and a parent's eligibility for parent PLUS loans.

## 5.13.A
## Distance Education Program of Study

An otherwise eligible student enrolled in a program of study offered principally through distance education is eligible for Title IV aid if each of the following applies:

- The program leads to a recognized certificate, or to an associate, bachelor's, or graduate degree.
  [HEA §484(l)(1)(A); DCL GEN-06-05]

- The school providing the program has been evaluated by an accrediting agency recognized by the Department as having the evaluation of distance education programs within its scope of recognition. The accrediting agency must determine that the school has the capability to effectively deliver distance education programs. Beginning July 1, 2006, the Department provides an 18-month waiver of the distance education evaluation component. The waiver applies to certain distance education programs that were offered as of July 1, 2006, but for which the Department did not recognize the accrediting agency as having the evaluation of distance education programs within its scope of recognition.
  [HEA §481(b)(3); §668.8(m); DCL GEN-06-05; GEN-06-17]

If a foreign school offers a program of study that includes even a single distance education course, that program of study is ineligible for Title IV aid. Distance education technologies may be used in the foreign school classroom to supplement and support instruction offered as part of an otherwise eligible program, as long as the student and instructor are physically present in the classroom.
[§600.51(d)(4); §668.8(m); DCL GEN-06-11]

## 5.13.B
## Correspondence Program of Study

An otherwise eligible student enrolled in a correspondence course is eligible to receive Title IV program assistance only if the student is enrolled in a program of study that leads to an associate, bachelor's, or graduate degree. [§668.38(a)]

A school is not eligible to participate in the Title IV programs if, during its most recently completed award year, either of the following conditions applies:

- More than 50% of the school's courses were correspondence courses. This limitation does not apply to a school that mainly provides vocational adult education or job training defined under section 521(4)(C) of the Carl D. Perkins Vocational and Applied Technology Education Act.

- 50% or more of the school's regularly enrolled students were enrolled in correspondence courses. [09-10 FSA Handbook, Volume 2, Chapter 1, pp. 2-8 to 2-10]

## 5.14
## Foreign Schools and Study-Abroad Programs

Students who participate in programs of study at foreign schools or in study-abroad programs sponsored by a home school that is in the United States are eligible for FFELP loan funds in certain cases.

## 5.14.A
## 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 parent PLUS loan, both the parent and the dependent student—is any one of the following:

- A U.S. citizen or national. [§668.33(a)(1)]

- A permanent resident of the United States. [§668.33(a)(2)(i)]

- An eligible noncitizen. [§668.33(a)(2)(ii)]

Schools located in Canada and Mexico are considered foreign schools for purposes of establishing eligibility for Stafford and PLUS loans.

## 5.14.B
## 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. In addition, a graduate or professional student or the parent of a dependent undergraduate student may be determined eligible to receive PLUS loan proceeds for the student's attendance in such a program. Eligible borrowers may receive Stafford or PLUS loan funds, as applicable, for a study-abroad program, even if such a program is not required for the student's degree or certificate. [HEA §484(o); §668.39]

## 5.15
## Eligibility Requirements Specific to Transfer Students

Generally, a transfer student is eligible to receive FFELP loan funds. However, the school must assess a transfer student's eligibility for FFELP loan funds in the context of funds the student may have borrowed for previous periods of enrollment at other schools.

## 5.15.A
## Financial Aid History for Transfer Students

For mid-year transfer students applying for Title IV aid, a school must request a student's financial aid history through the Transfer Monitoring Process with the National Student Loan Data System (NSLDS). The NSLDS information will assist the school in making the eligibility determinations described in this section. Once a school has requested information from the NSLDS, it must wait for 7 days following its request to the NSLDS before delivering Stafford or PLUS loan proceeds. However, if, before the end of the 7-day period, the school receives information from the NSLDS in response to its request or obtains information itself by directly accessing the NSLDS, the school may deliver the loan proceeds as long as the student is otherwise eligible. The school may certify or decline to certify a Stafford or PLUS loan before it receives or accesses updated information from the NSLDS.

A school is not required to respond to a request for a paper financial aid transcript for either a current-year or prior-year transfer student unless it is a request to report assistance that a student has received through the Department of Health and Human Services. See Section 8.7 for more information on delivery restrictions for transfer students.
[DPL GEN-00-12; DPL GEN-01-09; 10-11 FSA Handbook, Volume 1, Chapter 3, pp. 1-46 to 1-48]

## 5.15.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 period of enrollment. An exception to this policy is made if one of the following conditions exists:

- 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 (COA) at the new school. See Section 6.1 for more information regarding a student's loan eligibility after transferring.

- The student's first school returned funds for the student, in which case the borrower may receive up to the amount of the returned funds plus any remaining eligibility. The lender must report the returned funds 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.

## 5.16
## Multiple School Enrollment

A student may be enrolled simultaneously on at least a half-time basis at more than one school. In this case, the student may be eligible to receive a Stafford and a Grad PLUS loan, if applicable—and the parent of a dependent undergraduate student may be eligible to receive a PLUS loan—at more than one school for the same payment period or period of enrollment. A Stafford or PLUS loan certified by one school is not included as estimated financial assistance (EFA) by another school when determining a student or parent borrower's eligibility for a Stafford or PLUS loan for the same payment period or period of enrollment.
[10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-102]

It is necessary for the two schools to coordinate with each other to ensure that the student's eligibility for a Stafford or Grad PLUS loan, if applicable—and the parent's eligibility for a parent PLUS loan—is properly determined. If one school has already certified a loan for the student, the other school is required to take the following actions:

- Eliminate the student's living costs from the cost of attendance (COA) because those costs were included in the COA at the first school.

- Ensure that the student does not receive loan funds in excess of the annual Stafford loan limits at that school and that the total amount of the loans received by the student for enrollment at both schools does not exceed the student's highest applicable annual Stafford loan limit.

  EXAMPLE: A fourth-year student at a 4-year school may decide to enroll simultaneously in a one-year computer program at a proprietary school. If the student requests and receives a $3,000 base Stafford loan amount for his or her final year of study at the 4-year school, he or she has remaining base Stafford loan eligibility of $2,500 as a fourth-year student. If the student subsequently applies for aid as a first-year student at the proprietary school, the student's base first-year loan eligibility at the proprietary school must be adjusted from $2,625 to $2,500 (because the $5,500 maximum base fourth-year loan eligibility from the 4-year school minus the $3,000 received at the 4-year school equals the student's remaining eligibility). In this case, the student does not exceed annual loan limits at either school and the combined total of the student's loans does not exceed his or her highest applicable annual loan limit of $5,500. In this scenario, if the student had borrowed the fourth-year base annual loan limit at the 4-year school, he or she would have no eligibility for a base loan amount at the proprietary school. Likewise, if the student borrowed only $1,000 at the 4-year school, he or she would be eligible to borrow a base loan amount of $2,625 at the proprietary school (the first-year annual loan limit).

If neither school is aware of the student's simultaneous enrollment in two different schools until after both schools have certified Stafford loans and the student receives loan funds in excess of his or her highest applicable annual Stafford loan limit, the schools must coordinate with each

other to adjust the student's aid package at one or both schools to eliminate the excess loan amount. If neither school is able to eliminate the excess loan amount, the excess loan amount must be reported to the lender. Refer to Subsection 6.11.E for information regarding borrowers who exceed annual loan limits.
[10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-96]

## 5.17 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 Section 5.1 for information regarding eligibility requirements).
- The borrower received federal interest benefits on a subsidized Stafford loan for which the borrower did not qualify.
- The borrower has been convicted of, or has pled guilty or *nolo contendere,* to a crime involving fraud in obtaining Title IV funds and has not repaid those funds in full.
- The student did not begin attendance in a loan period or payment period for which the loan funds were intended and the borrower did not repay loan proceeds he or she received to either the school or the lender. A student does not begin attendance if the school is unable to document the student's attendance in any class during a loan period or during a payment period within the loan period.

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.

## 5.17.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 process, misrepresented his or her eligibility, or otherwise acted in a way that caused the borrower to be ineligible for the loan. Examples of such misrepresentation are the misreporting of family size, income, or student or borrower default status.

### Failure to Begin Attendance

If FFELP loan funds were delivered to, or on behalf of, a student who did not begin attendance in a loan period or payment period for which the loan funds were intended, the borrower is ineligible for those funds. A student does not begin attendance if the school is unable to document the student's attendance in any class during a loan period, or during a payment period within the loan period. Below are examples of situations in which a borrower is considered ineligible for loan funds due to borrower error:

- The school delivered loan funds to, or on behalf of, an otherwise eligible student as early as 10 days prior to the beginning of a loan period and the school later learned that the student did not begin attendance in the loan period.
- The school delivered loan funds to, or on behalf of, an otherwise eligible student as early as 10 days prior to a second or subsequent payment period in the loan period and the school later learned that the student did not begin attendance in the second or subsequent payment period.
- The lender directly disbursed funds to a student enrolled in a study-abroad or foreign school program and the student did not begin attendance in the loan period or payment period.

The school will not be assessed any liability for delivering loan funds unless the school knew, or should have known, that the borrower was ineligible to receive the funds at the time they were delivered (see Subsection 5.17.B for more information about ineligibility due to school error). However, as soon as possible, but no later than 30 days after the date the school becomes aware that the student will not, or did not begin attendance, the school must return to the lender all loan funds credited to the student's account at the

school and the amount of any payments made directly by, or on behalf of, the student to the school for the loan period or payment period, as applicable. See Subsection 8.9.B for more information about returning ineligible borrower loan funds.

For loan funds that a lender disbursed or a school delivered directly to a borrower for a loan period or payment period in which the student did not begin attendance, the school is not responsible for returning the funds. However, upon learning that a student will not, or did not begin attendance, a school must immediately notify the lender of the borrower's receipt of funds for which he or she was not eligible, including loan funds that a lender disbursed directly to a student enrolled in a study-abroad or foreign school program. The school should include in its notice to the lender the student's withdrawal date, if applicable. For more information about required enrollment reporting, see Section 9.2.

The lender will issue a final demand letter to the borrower requiring the borrower to repay the full amount of the ineligible portion of the loan, including interest benefits and special allowance the lender billed to the Department. The lender must allow an ineligible borrower at least 30 days to respond from the date the final demand letter is mailed. 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 entire loan as though it were in default and file a claim payment request with the guarantor. See Subsection 12.4.F for more information about a lender's servicing requirements on ineligible loans due to borrower error.

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 the ineligible loan(s). Additionally, the borrower may not consolidate or rehabilitate an ineligible loan, 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 loan to regain Title IV eligibility. However, a borrower with an ineligible loan(s) may consolidate another eligible loan(s). [§682.201(d)(1)(i)(D); §682.201(d)(2)]

## 5.17.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 certification or recertification in the state in which the school is located.
- The 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 school knew that a student would not, or did not, begin attendance during the loan period or a payment period within the loan period before the school delivered loan proceeds to, or on behalf of, a student (e.g., the student notified the school that he or she would not attend or the school expelled the student).

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.

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 loan to the school at the time the school returns the ineligible loan funds to the lender.

In these cases, the school must repay the ineligible disbursed amount plus outstanding accrued interest and interest benefits or special allowance payments that the Department paid to the lender. See Subsection 8.9.B for detailed information about returning ineligible loan funds due to school error.

## 5.17.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.

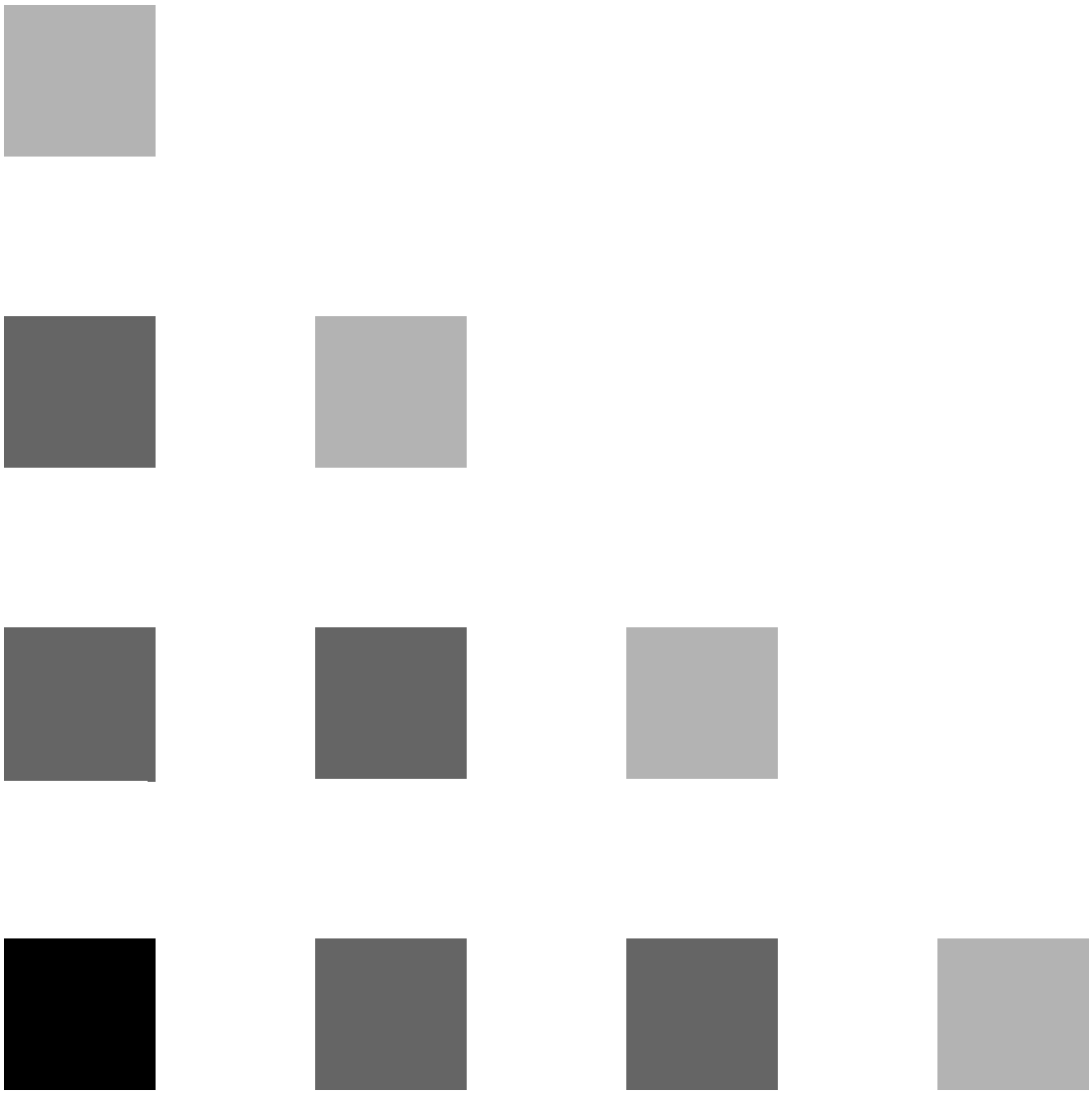
This page intentionally left blank.

# Tab Locator Page

## Remove this page and replace with tab divider.

# Tab Locator Page

## Remove this page and replace with tab divider.



# 6 School Certification


| | | |
|---|---|---|
| 6.1 | Defining an Academic Year | 1 |
| 6.1.A | Minimum Length for an Academic Year | 1 |
| 6.1.B | Academic Year Categories | 2 |
| 6.2 | Determining the Loan Period | 8 |
| 6.3 | Determining Payment Periods | 10 |
| 6.3.A | Credit-Hour Programs Offered in Modules | 10 |
| 6.3.B | Credit-Hour Programs with Standard Terms or with Nonstandard Terms That Are Substantially Equal in Length | 11 |
| 6.3.C | Credit-Hour Programs with Nonstandard Terms That Are Not Substantially Equal in Length | 11 |
| 6.3.D | Clock-Hour Programs or Non-Term-Based Credit-Hour Programs | 12 |
| 6.3.E | Excused Absences in Clock-Hour Programs | 13 |
| 6.3.F | Students Returning to a Non-Term-Based Credit-Hour or Clock-Hour Program after a Withdrawal | 13 |
| 6.4 | Determining the Disbursement Schedule | 13 |
| 6.4.A | Multiple Disbursements and Low Cohort Default Rate Exemptions | 14 |
| 6.4.B | When Disbursements May Be Scheduled | 14 |
| 6.5 | Determining the Student's Cost of Attendance (COA) | 18 |
| 6.5.A | COA Components | 18 |
| 6.5.B | COA Exceptions for Correspondence and Distance Education Programs of Study | 19 |
| 6.5.C | COA Documentation Requirements | 19 |
| 6.5.D | Use of Professional Judgment to Determine COA | 19 |
| 6.6 | Determining the Expected Family Contribution (EFC) | 20 |
| 6.6.A | Performing Verification Requirements | 20 |
| 6.6.B | Use of Professional Judgment to Determine EFC | 21 |
| 6.7 | Determining the Amount of Estimated Financial Assistance (EFA) | 21 |
| 6.8 | Determining the Student's Dependency Status | 23 |
| 6.9 | Defining Enrollment Status | 26 |
| 6.10 | Determining the Student's Grade Level | 27 |
| 6.11 | Loan Limits | 28 |
| 6.11.A | Stafford Annual Loan Limits | 28 |
| 6.11.B | Stafford Aggregate Loan Limits | 38 |
| 6.11.C | PLUS Loans for Graduate and Professional Students | 39 |
| 6.11.D | Increased Unsubsidized Stafford Loan Limits for Health Profession Students | 39 |
| 6.11.E | Exceeding Loan Limits | 41 |
| 6.11.F | Prorated Loan Limits | 42 |
| 6.11.G | Effects of a Consolidation Loan on New Stafford Loan Eligibility | 46 |
| 6.12 | Determining the Eligible Loan Amount | 46 |
| 6.13 | Determining the Loan Amount at Schools with Credit-Hour Programs | 47 |
| 6.14 | Determining a Student's Eligibility for Interest Subsidy on Stafford Loans | 47 |
| 6.14.A | Subsidized Stafford Loans | 47 |
| 6.14.B | Unsubsidized Stafford Loans | 48 |
| 6.14.C | Nonsubsidized Stafford Loans | 48 |

# 6 School Certification


6.15 School Certification of the Loan ..... 48
6.15.A Preventing Overawards ..... 49
6.15.B Stafford Loan Certification ..... 49
6.15.C PLUS Loan Certification ..... 50
6.15.D Additional Unsubsidized Stafford Loan Certification for a Dependent Student ..... 51
6.15.E Refusing to Certify a Loan or Reducing Borrower Eligibility ..... 52
6.16 Applying for Federal Stafford and PLUS Loans ..... 53
6.17 Forwarding the Loan Information ..... 55
6.18 Facilitating Guarantee Processing ..... 55
6.19 Guarantee of the Loan ..... 56
6.20 Adjusting the Guaranteed Loan Amount ..... 56
6.21 The NCHELP FFELP CommonLine Network ..... 56

The school plays a key role in determining the amount of funds for which the student or borrower is eligible, whether those funds should be subsidized, and how the funds should be disbursed. The school provides this information to the lender and guarantor via its certification of the loan, either in a paper or electronic format. Chapter 6 describes the data a school is required to obtain or calculate and the certifications it must make to fulfill its role in the origination of a student's FFELP loan.

## 6.1 Defining an Academic Year

A school must define a program's academic year. For a credit-hour program, a school must define how the program is structured—whether the program is offered in standard (i.e., semester, trimester, or quarter) terms, nonstandard terms, or no terms. For the purposes of Title IV aid, a clock-hour program, including such a program with terms, is treated as non-term-based. The academic year is defined in weeks of instructional time and, for an undergraduate program, credit or clock hours. For purposes of defining the academic year, a week of instructional time is any consecutive 7-day period in which the school provides at least one day of regularly scheduled classes or examination, or after the last scheduled day of classes for a term or payment period, at least one day of study for final examinations. Instructional time does not include periods of orientation, counseling, vacation, or homework.
[§668.3(b); 10-11 FSA Handbook, Volume 3, Chapter 1, pp. 3-1 to 3-3, and 3-5]

A school may have different academic years for different programs. For example, a school may choose to define the academic year for a term-based credit-hour program differently from a non-term-based credit-hour program. In addition, a school may treat multiple versions of the same program (e.g., the day and night versions) as separate programs and define a different academic year for each version. If a school defines different academic years for different versions of the same program and the school permits a student to enroll in coursework from both versions of the program, the school must determine the version in which the student is actually enrolled. A student must be taking at least 50% of his or her coursework from a particular version of the program in order for the school to consider the student enrolled in that version of the program.
[10-11 FSA Handbook, Volume 3, Chapter 1, p. 3-1]

A school must use the same academic year definition for all students enrolled in a particular program. The school must document the academic year definition for each of its academic programs. The academic year definition for the program, or the version of the program, in which the student is enrolled determines the frequency of Stafford annual loan limits, the minimum and maximum Stafford and PLUS loan periods, payment periods, and the timing of loan disbursements and deliveries.
[10-11 FSA Handbook, Volume 3, Chapter 1, pp. 3-1, 3-2, and 3-6]

## 6.1.A Minimum Length for an Academic Year

The minimum length for an academic year varies, depending on the level of the program and the method of measuring progress:

- For an undergraduate program of study measured in clock hours, an academic year is a period of at least 26 weeks of instructional time. During this period, a full-time student is expected to complete a minimum of 900 clock hours.
  [HEA §481(a)(2); §668.3]

- For an undergraduate program of study measured in credit hours, an academic year is a period of at least 30 weeks of instructional time. During this period, a full-time student is expected to complete a minimum of 24 semester or trimester hours, or 36 quarter hours.
  [§668.3(a)]

  The Department may allow a credit-hour program to have an academic year that is shorter than the 30-week minimum if all of the following criteria are met:

  - The program results in a two-year associate degree or four-year bachelor's degree.

  - The school obtains the approval of its accrediting agency and state licensing agency for the reduced academic year.

  - The school submits a written request to the Department for a reduced academic year that is not less than 26 weeks. The request must include information identifying the program to which the reduced year will be applied and the number of weeks that will be included in the proposed reduced year. The school must demonstrate good cause for the requested reduction and provide any other information requested by the Department.
    [§668.3(c)(1) and (2)]

If the Department approves the reduced academic year, that approval terminates when the school's Program Participation Agreement expires. The school may request an extension of the approval as part of the re-certification process.
[§668.3(c)(3)]

- For a graduate or professional program of study, an academic year is a period of at least 30 weeks of instructional time. While the Department regulates the amount of coursework that an undergraduate student is expected to complete in an academic year, it does not regulate the amount of coursework that a graduate or professional student is expected to complete in an academic year. For graduate and professional programs, the school is expected to establish academic standards to determine the amount of work that a full-time graduate or professional student is expected to complete within an academic year.
[§668.3(a); 10-11 FSA Handbook, Volume 3, Chapter 1, p. 3-2]

## 6.1.B
## Academic Year Categories

Generally, there are two categories of academic year that determine the frequency of Stafford annual loan limits:

- A scheduled academic year (SAY) that corresponds to a traditional academic year calendar. An SAY is a fixed period of time that generally begins and ends at about the same time each calendar year according to an established schedule that is published in a school's catalog or other materials. Summer terms are generally not considered to be part of the SAY, but for loan limit purposes they are treated as a "header" or "trailer" to the SAY, as explained below.
[10-11 FSA Handbook, Volume 3, Chapter 6, pp. 3-111 to 3-112]

  For a standard term-based credit-hour program, a traditional academic year includes, for example, fall and spring semesters, or fall, winter, and spring quarters. For a nonstandard term-based credit-hour program with substantially equal terms that are at least nine weeks of instructional time in length (SE9W), a traditional academic year includes two or more nonstandard terms during the period fall through spring. Nonstandard terms are considered substantially equal in length if no term in the loan period is more than two weeks of instructional time longer than any other term in the loan period.
[10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-111]

- A borrower-based academic year (BBAY) that does not have a fixed beginning or ending date. A BBAY begins when a student, or a group of students, begins attendance and tracks the student's (or group's) attendance and progress in a program of study.
[10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-111]

Although there is no annual loan limit for a parent or Grad PLUS loan, a school must certify a parent or Grad PLUS loan for the same SAY or BBAY loan period that is used for the student's Stafford loan.
[10-11 FSA Handbook, Volume 3, Chapter 6, pp. 3-105, 3-106, and 3-111]

Both the SAY and BBAY must meet the minimum statutory requirements for an academic year. One exception to this rule is that, for a program offered in an SAY, a BBAY that includes a summer term and that is used as an alternative to the SAY may include fewer than 30 weeks of instructional time or fewer credit hours than the minimum number required for an SAY.
[10-11 FSA Handbook, Volume 3, Chapter 6, pp. 3-112 and 3-114]

For a standard term-based credit-hour program that is offered in a traditional academic year calendar or a credit-hour program with nonstandard terms that are SE9W using a traditional academic year calendar, a school may use either an SAY or a BBAY (referred to in discussion below as BBAY1). For such programs that are *not* offered in a traditional academic year calendar, a school must use a BBAY (referred to in discussion below as BBAY2).
[10-11 FSA Handbook, Volume 3, Chapter 6, pp. 3-113 to 3-116]

For a clock-hour program, a non-term-based credit-hour program, or a credit-hour program with nonstandard terms that are *not* SE9W, a school must use a BBAY (referred to in discussion below as BBAY3).
[10-11 FSA Handbook, Volume 3, Chapter 6, pp. 3-117 to 3-118]

There are significant differences in how a school determines that a student has completed a BBAY for a credit-hour program with standard terms or nonstandard terms that are SE9W versus a BBAY for a clock-hour, a non-term-based credit-hour, or a nonstandard term-based credit-hour program with terms that are *not* SE9W. See the discussion that follows for additional information.

### Credit-Hour Programs with Standard Terms or Nonstandard Terms That Are SE9W Offered in a Traditional Academic Year Calendar: Using an SAY

For a credit-hour program with standard terms or nonstandard terms that are SE9W using an SAY that corresponds to a traditional academic year calendar, the school must designate the summer term as either a "header" (precedes the academic year) or a "trailer" (follows the academic year). (See the discussion in this Subsection under the heading *Academic Year Categories* for additional information.) A school may consistently designate the summer term as either a header or trailer with no exceptions. A school may also choose any one of the following options, provided there is no overlap in academic years:

- The school may consistently designate the summer term as either a header or a trailer with some exceptions (e.g., for different programs or for individual students) that are determined by the school on a case-by-case basis.

- The school may make all decisions regarding the use of the summer term as a header or a trailer on a case-by-case basis.

The Stafford annual loan limit applies to the SAY, plus the summer trailer or header. Once the calendar period associated with all of the terms in the SAY has elapsed, a student regains eligibility for new Stafford annual loan limits regardless of whether the student attends all of the terms or completes all of the credit hours or weeks of instructional time in the program's Title IV academic year.
[10-11 FSA Handbook, Volume 3, Chapter 6, pp. 3-112 to 3-113]

### Credit-Hour Programs Using Standard Terms or Nonstandard Terms That Are SE9W Offered in a Traditional Academic Year Calendar: Using BBAY1

If a program is offered in an SAY, the school may use BBAY1 as an alternative to the SAY for monitoring annual loan limit progression. If BBAY1 is used, the school must include the same number of consecutive terms in the BBAY as it includes in the program's SAY, excluding a summer term designated as a "header" or "trailer" to the SAY. (See the discussion in this Subsection under the heading *Academic Year Categories* for additional information.) For example, if the SAY includes three quarter terms (fall, winter, and spring), a BBAY would consist of any three consecutive terms. The BBAY may include a term(s) in which the student does not enroll if the student could have enrolled at least half-time in that term(s), but the BBAY must begin with a term in which the student is actually enrolled. A student may be enrolled less than half-time for the first term in the BBAY, although the student is not eligible to receive, or receive the benefit of, a loan for that initial term. Modules (summer or otherwise) that are offered consecutively within a term must be combined and treated as a single term.

A school may use BBAY1 for all students, for students enrolled in certain programs, or on a student-by-student basis. For example, a school may use BBAY1 for a student who is enrolled in a program that begins in a term other than the first term of the SAY. The school may also alternate between BBAY1 and an SAY for the same student, allowing a student to receive another annual loan limit sooner than would be permitted under the SAY. However the school must ensure that it does not establish overlapping academic years for a student.
[10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-114]

The Stafford annual loan limits apply to the BBAY. Once the calendar period associated with all of the terms in BBAY1 has elapsed, a student regains eligibility for new Stafford annual loan limits regardless of whether the student attends all of the terms or completes the credit hours or weeks of instructional time in the program's Title IV academic year.
[10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-114]

### Credit-Hour Programs Using Standard Terms or Nonstandard Terms That Are SE9W Not Offered in a Traditional Academic Year Calendar: Using BBAY2

If a school has a program that is not offered in a traditional academic year calendar (i.e., one that corresponds to an SAY), the school must use BBAY2. (See the discussion in this Subsection under the heading *Academic Year Categories* for additional information.) The BBAY for a program that is not offered in an SAY must always include enough consecutive terms to meet the program's Title IV academic year requirements for weeks of instructional time. If the program uses semester or trimester terms, a BBAY consists of at least two consecutive terms. If the program uses quarter terms, a BBAY consists of at least three consecutive terms. If the program uses nonstandard terms that are SE9W, a BBAY consists of the number of consecutive terms that coincide with the weeks of instructional time in the program's academic year. The BBAY may include a term(s) in which the student does not enroll if the student could have enrolled at least half time in that term(s), but the BBAY must begin with a term in which the student is actually enrolled. A student may be enrolled less than half-time for the first term in the BBAY, although the student is not eligible to receive, or receive the benefit

of, a loan for that initial term. Modules (summer or otherwise) must be combined and treated as a single standard term.
[10-11 FSA Handbook, Volume 3, Chapter 6, pp. 3-112 and 3-116]

The Stafford annual loan limits apply to the BBAY. Once the calendar period associated with all of the terms in BBAY2 has elapsed, a student regains eligibility for new Stafford annual loan limits regardless of whether the student attends all of the terms or completes all of the credit hours or weeks of instructional time in the program's Title IV academic year.
[10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-116]

### Clock-Hour Programs, Non-Term-Based Credit-Hour Programs, and Nonstandard Term-Based Credit-Hour Programs with Terms That Are *Not* SE9W: Using BBAY3

A school must use BBAY3 for any of the following programs:

- A clock-hour program.
- A non-term-based credit-hour program.
- A credit-hour program with nonstandard terms that are *not* SE9W, i.e., the terms are not substantially equal in length, or each term is not at least nine weeks of instructional time in length.
- A credit-hour program with a combination of standard terms and nonstandard terms that does not qualify to use an SAY.

BBAY3 begins when the student enrolls and does not end until the student successfully completes (i.e., passes) the number of credit or clock hours and completes the weeks of instructional time in the program's Title IV academic year. For a student enrolled in a nonstandard term-based program with terms that are not SE9W, the number of terms that have elapsed is irrelevant.

The Stafford annual loan limits apply to the BBAY. Once a student successfully completes (i.e., passes) the number of credit or clock hours and completes the weeks of instructional time in the program's Title IV academic year, a new BBAY begins and the student regains eligibility for a new annual loan limit. A student's enrollment status may affect how soon the student regains eligibility for new Stafford annual loan limits. A student who does not attend on a full-time basis will take longer to complete the academic year than a full-time student.
[10-11 FSA Handbook, Volume 3, Chapter 6, pp. 3-117 to 3-118]

A student enrolled in a self-paced program, either a clock-hour program or a non-term-based credit-hour program, may successfully complete the number of clock or credit hours in the program's academic year in fewer than the number of weeks of instructional time in the program's academic year. If the self-paced program is an undergraduate program that is *exactly* one academic year in length, e.g., 900 clock hours and 26 weeks of instructional time, a student may successfully complete 900 clock hours in 22 weeks. If the average student successfully completes the program in 26 weeks, the school is not required to prorate the loan amount for the occasional student who successfully completes the program in less than 26 weeks (see Subsection 6.11.F). A student who is enrolled in a program that is more than one academic year in length cannot receive a subsequent loan for a new BBAY until the student has completed both the number of clock or credit hours and the weeks of instructional time in the initial BBAY. For example, a student is enrolled in a program of 1800 clock hours and 52 weeks of instructional time in which the Title IV academic year is defined as 900 clock hours and 26 weeks of instructional time. The student successfully completes 900 clock hours in 22 weeks of instructional time. However, the student must also complete the 26 weeks of instructional time in the program's academic year before the student gains eligibility to receive another loan for a new BBAY. If the subsequent loan is for a final period of undergraduate study that includes fewer clock or credit hours than the program's academic year, the school must prorate the Stafford annual loan limits (see Subsection 6.11.F).
[10-11 FSA Handbook, Volume 3, Chapter 6, pp. 3-117 to 3-118]

### Transfer Students

If a student borrows Stafford loan funds to attend one school and then transfers to a new school or transfers to a new program at the same school, a school is not permitted to certify a Stafford loan until it determines whether the student's new academic year will overlap with the final academic year at the prior school or with the prior program at the same school. As a result, a student's Stafford annual loan limit for the initial period of enrollment at the new school or in the new program at the same school may be limited. For detailed information about determining whether an academic year overlap exists for a transfer student and determining such a student's remaining Stafford loan eligibility, see Subsection 6.11.A.
[10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-126]

## Statutory Definition of an Academic Year — Figure 6-1

| 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 | 26 weeks |

Adapted from: *Trainee Guide: 1995-96 Delivery System Training Workshop*, U.S. Department of Education, December 22, 1994, page TG2-23.

## Frequency of Stafford Annual Loan Limits — Figure 6-2

| Credit-Hour Programs with Standard Terms or Nonstandard Terms That Are Substantially Equal and at Least Nine Weeks of Instructional Time (SE9W) Offered in a Scheduled Academic Year (SAY) (Including Such Programs Using Modules) | | Credit-hour Programs with Standard Terms or Nonstandard Terms That Are SE9W Not Offered in an SAY (Including Such Programs Using Modules) | Credit-Hour Programs with Nonstandard Terms That Are Not SE9W, Non-Term-Based Credit-Hour and Clock-Hour Programs (Includes Programs that Mix Nonstandard and Standard Terms With No SAY) |
|---|---|---|---|
| **May Use SAY** | **May Use BBAY1** | **Must Use BBAY2** | **Must Use BBAY3** |
| SAY consists of a traditional academic year calendar that begins and ends at approximately the same time each calendar year<br><br>SAY includes at least two semesters or trimesters or three quarters in fall through spring, or a comparable academic calendar with nonstandard terms that are SE9W<br><br>SAY must at least meet the program's Title IV academic year requirements in credit hours and weeks of instructional time<br><br>Student does not have to be enrolled in the first term of the SAY<br><br>All Stafford loans borrowed during a SAY (including summer header/trailer) must not exceed the annual loan limit for student's grade level<br><br>Student regains eligibility for new annual loan limit after SAY calendar period elapses<br><br>After original loan, additional loans during the same SAY are permissible if any of the following occur:<br>• Student has remaining eligibility<br>• Student progresses to a grade level with a higher annual loan limit<br>• Student changes from dependent to independent<br><br>Summer term may be "header" or "trailer" to the SAY, per<br>• Strict policy<br>• Program<br>• Case by case basis<br><br>*continued* | BBAY floats with a student's, or a group of students', enrollment<br><br>BBAY must equal the number of terms in the program's SAY, excluding a summer header/trailer<br><br>BBAY need not meet minimum statutory requirements of an academic year if the BBAY includes a summer term<br><br>School may use BBAY1 for<br>• All students<br>• Certain students<br>• Certain programs<br><br>School may alternate SAY and BBAY1 for a student provided academic years do not overlap<br><br>Student must be enrolled in the first term of the BBAY. Student may enroll less than half time for the initial term of the BBAY but the student is not eligible to receive, or receive the benefit of, a loan for that initial term<br><br>BBAY may include terms that the student does not attend if the student could have enrolled at least half-time<br><br>All Stafford loans borrowed during a BBAY must not exceed the annual loan limit for student's grade level<br><br>Borrower regains eligibility for new annual loan limit after BBAY calendar period elapses<br><br>*continued* | BBAY floats with a student's, or a group of students', enrollment<br><br>BBAY consists of at least two consecutive semesters or trimesters, three consecutive quarters, or at least the number of consecutive nonstandard terms that are SE9W covered by the program's academic year<br><br>BBAY must meet at least the program's Title IV academic year requirements in credit hours and weeks of instructional time<br><br>Student must enroll in the first term of the BBAY. Student may enroll less than half time for the initial term in the BBAY but the student is not eligible to receive, or receive the benefit of, a loan for that initial term<br><br>BBAY may include terms that the student does not attend if the student could have enrolled at least half time<br><br>All Stafford loans borrowed during BBAY must not exceed the annual loan limit for student's grade level<br><br>Borrower regains eligibility for new annual loan limit after BBAY calendar period elapses<br><br>After original loan, additional loans during the same BBAY are permissible if any of the following occurs:<br>• Student has remaining eligibility<br>• Student progresses to a grade level with a higher annual loan limit<br>• Student changes from dependent to independent<br><br>*continued* | BBAY floats with a student's, or a group of students', enrollment<br><br>BBAY must meet at least the program's Title IV academic year requirements in credit/clock hours and weeks of instructional time<br><br>BBAY begins with student's enrollment on at least a half-time basis<br><br>All Stafford loans borrowed during BBAY must not exceed the annual loan limit for student's grade level<br><br>Borrower gains eligibility for a new annual loan limit after successfully completing the credit/clock hours and weeks of instructional time in the BBAY<br><br>Student may not borrow additional loan for progress to next grade level until the student successfully completes both the credit/clock hours and weeks of instructional time in the BBAY<br><br>After original loan, additional loans during the same BBAY are permissible if the student has remaining eligibility, or the student changes from dependent to independent |

| Credit-Hour Programs with Standard Terms or Nonstandard Terms That Are Substantially Equal and at Least Nine Weeks of Instructional Time (SE9W) Offered in a Scheduled Academic Year (SAY) (Including Such Programs Using Modules) | | Credit-hour Programs with Standard Terms or Nonstandard Terms That Are SE9W Not Offered in an SAY (Including Such Programs Using Modules) | Credit-Hour Programs with Nonstandard Terms That Are Not SE9W, Non-Term-Based Credit-Hour and Clock-Hour Programs (Includes Programs that Mix Nonstandard and Standard Terms With No SAY) |
|---|---|---|---|
| **May Use SAY** | **May Use BBAY1** | **Must Use BBAY2** | **Must Use BBAY3** |
| *(continued)*<br><br>Summer modules may be combined and treated as a single header/trailer or individual modules may be assigned to different SAYs | *(continued)*<br><br>After original loan, additional loans during the same BBAY are permissible if any of the following occur:<br>• Student has remaining eligibility<br>• Student progresses to a grade level with a higher annual loan limit<br>• Student changes from dependent to independent<br><br>Modules (summer or otherwise) must be combined with each other or with other terms and treated as a single standard or nonstandard term. Student need not enroll in each module but must have been able to enroll at least half time in the combined term | *(continued)*<br><br>Modules (summer or otherwise) must be combined with each other or with other terms and treated as a single standard or nonstandard term. Student need not enroll in each module but must have been able to enroll at least half-time in the combined term | |

[10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-112]

## 6.2
## Determining the Loan Period

The loan period is the period of enrollment for which a Stafford or PLUS loan is intended. The loan period 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).
[§682.200(b)]

The maximum period for which a school may certify a loan is an academic year. See Section 6.1 for more information about how the academic year is defined and used to determine and certify the appropriate loan amount for a student enrolled in a standard term-based, nonstandard term-based, or non-term-based credit-hour program, and for a clock-hour program.

The maximum period for which a school may certify a Stafford or PLUS loan is the calendar period of time in which the student is expected to successfully complete the credit or clock hours and the instructional weeks in the Title IV academic year definition for any of the following programs:

- A non-term-based credit-hour program.
- A clock-hour program.
- A nonstandard term-based, credit-hour program that does not have substantially equal terms.
- A nonstandard term-based, credit-hour program that has substantially equal terms that are not all at least nine weeks in length.

For a student who attends such a program on at least a half-time but less-than-full-time basis, otherwise progresses in the program at a slower rate, or takes an approved leave of absence, the loan period may be longer than the loan period for a student attending the same program who progresses at a normal pace.

> Example: A school offers a non-term-based, credit-hour program of one academic year in length. The Title IV academic year definition for the program, and the program's length, is 24 semester credit hours and 40 instructional weeks, which requires the normal, full-time student 10 months to complete. For such a student, the loan period is 10 months in length (i.e., the calendar period required for the student to successfully complete the number of credit hours and instructional weeks in the program/academic year). However, for a student who enrolls in the program on a less-than-full-time basis (but at least half-time) the loan period may be 15 months, (i.e., the calendar period necessary for the student to successfully complete the number of credit hours and instructional weeks in the program/ academic year at a slower pace).

[§682.603(g)(2)(i)]

In a program that measures academic progress in credit hours and uses standard terms (i.e., a semester, trimester, or quarter system) or one that uses nonstandard terms that are substantially equal in length *and* at least 9 weeks of instructional time in length (SE9W), the minimum period for which a school may certify a loan is a single academic term (i.e., a semester, trimester, quarter, or nonstandard term that is SE9W). In such a program that is offered in modules, the minimum period for which a school may certify a loan is a single academic term, including a case when a student does not enroll in all of the modules within the term.
[§682.603(g)(1)(i)(A); 10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-101]

In a clock-hour program, a non-term-based credit-hour program, a credit-hour program with nonstandard terms that are not SE9W (i.e., the terms are not substantially equal, or each term is not at least nine weeks of instructional time in length), or a program with a combination of standard or nonstandard terms that does not qualify to use an SAY, the minimum period for which a school may certify a loan is:

- The lesser of the length of the student's program at the school, the school's academic year, or the student's final period of study at the school.
  [§682.603(f)(1)(i)(B); 10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-101]
- The lesser of the student's final period of study or the remaining portion of the prior school's final academic year if all of the following criteria are met:
  - A student transfers to a new school from a prior school (not a student who transfers between programs at the same school).
  - The new school accepts credit or clock hours from another school (the prior school or a different school) toward completion of the program at the new school.

  - The prior school certified a loan for an academic year that overlaps the academic year at the new school.

  In this case, the new school may certify a loan for no more than the remaining balance of the Stafford annual loan limit for the student's grade level at the new school. See Subsection 6.11.A for more information about determining remaining Stafford loan eligibility for a student who transfers between schools during an academic year, and Figure 6-4 for more information about Stafford annual loan limits applicable to a student's grade level.
  [§682.603(f)(1)(ii); 10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-128]

- The remainder of the current academic year for a student who completes one program and begins another program within an academic year at the same school. The school may certify an additional loan for an amount that does not exceed the remaining balance of the Stafford annual loan limit for the student's grade level in the new program (see Subsection 6.11.A) if each of the following criteria are met:

  - The student's last loan to complete that program was for a period of less than an academic year.

  - The student then begins a new program at the same school within the same academic year.
  [§682.603(f)(1)(iii); 10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-128]

The exception to this rule is the completion of a graduate program and beginning of an undergraduate program within an academic year. In this case, the undergraduate loan limit for the student's grade level applies, but amounts previously borrowed at the graduate level within the same academic year do not count against the undergraduate annual loan limit. The total amount awarded for the academic year may not exceed the higher (graduate/professional) annual loan limit.
[10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-110]

#### Defaulted Borrowers

The maximum loan period that the school may certify for a defaulted borrower whose Title IV eligibility is reinstated (see Subsection 5.2.E) is the academic year during which the borrower regains eligibility.
[§682.603(g)(2)(ii)]

#### Including a Retroactive Period in a Loan Period

Generally, a school may certify a borrower's eligibility for a Stafford or PLUS loan retroactive to the beginning of the current period of enrollment for a student or parent borrower, as applicable, who meets conditions that include, but are not limited to, the following:

- The student or parent borrower, as applicable, regains eligibility during the period of enrollment after an earlier loss of eligibility due to, for example:

  - Failure to make satisfactory academic progress (see Section 8.4). If the school's written satisfactory academic progress policy provides for reinstatement of eligibility at a later point, the school must comply with its written policy.
  [10-11 FSA Handbook, Volume 1, Chapter 1, p. 1-13]

  - Failure to meet citizenship requirements (see Subsection 5.2.A).

  - A prior default or overpayment in a Title IV program (see Subsection 5.2.E).
  [§682.603(f)(2)(ii)]

  - Inadvertent borrowing in excess of the Stafford annual or aggregate loan limit (see Subsection 6.11.E).

- The student or parent borrower, as applicable, requests a loan in the second or subsequent payment period in the period of enrollment.

- The student regains eligibility after a loss of eligibility due to a conviction for drug possession or sale (see Section 5.9).

However, a school may include a retroactive portion of the current enrollment period in a Stafford or PLUS loan period only if the student attended and completed that retroactive period on at least a half-time basis. For example, a school may certify a loan in the spring term for a fall/spring period of enrollment and include the costs for the fall term in the student's cost of attendance for the loan period, provided that the student completed the fall term on at least a half-time basis. The school must ensure that a loan period including a retroactive period does not exceed the maximum allowable loan period as described above, and meets applicable criteria for determining the frequency of Stafford annual loan limits (see Section 6.1 and Figure 6-2).

If a student attended during a retroactive period on a less-than-half-time basis, a school must not include the retroactive period in the loan period or that retroactive period's costs in the cost of attendance for the loan period. [10-11 FSA Handbook, Volume 3, Chapter 1, p. 3-22]

## 6.3 Determining Payment Periods

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.

For the purpose of determining payment periods, the following definitions apply:

- Substantially equal in length – terms are substantially equal in length if no term in the program is more than two weeks of instructional time longer than any other term in that program.

- Successful completion – a student successfully completes credit hours or clock hours if the school considers the student to have passed the coursework associated with those hours.

## 6.3.A Credit-Hour Programs Offered in Modules

A school that offers a credit-hour program in modules has several options for defining the program's structure: standard-term-based, nonstandard term-based with terms that are substantially equal in length *and* at least 9 weeks of instructional time in length (SE9W), nonstandard term-based with terms that are *not* SE9W, or non-term-based. A school may group modules together and treat the entire period of combined modules as a single term. For example, a school may group three consecutive modules of 5 weeks of instructional time each to create a standard term of 15 weeks of instructional time, or group four consecutive modules of 4 weeks of instructional time each to create a standard term of 16 weeks of instructional time.

A school may treat a program that is offered in modules as a program that consists of nonstandard terms. For example, in a program that offers courses in consecutive modules of 5 weeks of instructional time, the school may treat each module as a 5-week nonstandard term. In addition, a school may treat a program that consists of modules as a non-term-based program.

For a program that is offered in standard terms, a school may combine a short nonstandard term with an adjacent standard term. The combination of the short nonstandard term and the standard term may be treated as a single, standard term composed of two modules. For example, an interim period of 4 weeks of instructional time that begins and ends between a program's standard semesters, each of which consist of 15 weeks of instructional time, may be treated as part of one of the two standard semesters. The result is a single term of 19 instructional weeks consisting of one module of 4 and one module of 15 weeks of instructional time that the school may treat as a standard semester. A school that chooses this option must provide the same treatment for all Title IV aid to students enrolled in the program. A school must include all hours in which a student enrolls during the shorter module as part of the student's total enrollment for the standard term and include costs that the student incurs during the shorter module, as appropriate, in the student's cost of attendance. [10-11 FSA Handbook, Volume 3, Chapter 1, pp. 3-4 and 3-6]

The structure that a school chooses for a credit-hour program offered in modules affects all of the following:

- The definition of an academic year that determines the frequency of Stafford annual loan limits (see Subsection 6.1.B).

- The definition of a payment period (see Subsections 6.3.B through 6.3.F).

- A student's eligibility for additional loan funds due to a grade level increase within an academic year (see Subsection 6.11.A).

- The minimum period for which a loan may be certified (see Section 6.2).

- The disbursement schedule for a Stafford or PLUS loan (see Section 6.4).

- The delivery time frames for a Stafford or PLUS loan (see Section 8.7).

For example, if a school treats a program consisting of consecutive modules of 5 weeks of instructional time as a program offered in standard terms (in which each term is 15 weeks of instructional time composed of three

consecutive, 5-week modules), the school must apply the rules for determining the frequency of Stafford annual loan limits and the minimum period for which a loan may be certified as it would in a standard term-based program. However, if the school chooses to treat such a program as one that is offered in nonstandard terms of 5 instructional weeks each, the school must apply the rules for determining the frequency of Stafford annual loan limits and the minimum period for which a loan may be certified as it would in a nonstandard term-based program with terms that are *not* SE9W (i.e., all of the terms in the program are not substantially equal in length, or the terms are not all at least 9 weeks of instructional time in length).

## 6.3.B
## Credit-Hour Programs with Standard Terms or with Nonstandard Terms That Are Substantially Equal in Length

For an eligible program that measures progress in credit hours and has standard academic terms, or has nonstandard terms that are substantially equal in length, the payment period is the academic term (semester, trimester, quarter, or nonstandard term). In such a program that is offered in modules, the payment period is an academic term, including a case when a student does not enroll in all of the modules within the term.
[§668.4(a)]

## 6.3.C
## Credit-Hour Programs with Nonstandard Terms That Are Not Substantially Equal in Length

For an eligible program that measures progress in credit hours and has nonstandard terms that are not substantially equal in length, the payment period varies, depending on the length of the program, or the remaining portion of the program.

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 successfully completes half of the credit hours in the program *and* half of the number of weeks of instructional time in the program.

- The second payment period is the period of time in which the student successfully completes the remainder of the program.

For an eligible program that is more than one academic year in length, the following applies for the first academic year and for any subsequent full academic year:

- The first payment period is the period of time in which the student successfully completes half of the credit hours and half the number of weeks of instructional time in the academic year.

- The second payment period is the period of time in which the student successfully completes the remainder of the academic year.

For any remaining portion of an eligible program that is more than one-half of 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 the student successfully completes half of the credit hours and half the number of weeks of instructional time in the remaining portion of the program.

- The second payment period is the period of time in which the student successfully completes the remainder of the program.

A school must ensure that the student successfully completes a payment period before the school may deliver a subsequent disbursement of Stafford or PLUS loan funds to the student. A student does not progress to the subsequent payment period until the student successfully completes the number of credit hours and the number of weeks of instructional time in the current payment period. In a credit-hour program with nonstandard terms that are not substantially equal in length that is offered in modules, a student's failure to successfully complete one or more courses within a module may delay the student's successful completion of the payment period.
[10-11 FSA Handbook, Volume 3, Chapter 1, pp. 3-18 to 3-19 and 3-21]

For any remaining portion of an eligible program that is less than one-half of an academic year in length, the payment period is the remainder of the program; however, loan funds must be delivered in at least two disbursements, unless the school is exempt from the multiple disbursement requirement as a result of a low cohort default rate (see Subsection 7.7.B).
[§668.4(b)]

## 6.3.D
## Clock-Hour Programs or Non-Term-Based Credit-Hour Programs

For an eligible program that measures progress in clock hours, or a program that measures progress in credit hours and does not have academic terms, the payment period varies, depending on the length of the program or the remaining portion of the program.

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 successfully completes half the clock hours or credit hours *and* half the number of weeks of instructional time in the program.
  [§668.4(c)(1)(i)]

- The second payment period is the period of time in which the student successfully completes the remainder of the program.
  [§668.4(c)(1)(ii)]

For an eligible program that is more than one academic year in length, the following applies for the first academic year and any subsequent full academic year:

- The first payment period is the period of time in which the student successfully completes half the clock hours or credit hours *and* half the number of weeks of instructional time in the academic year.
  [§668.4(c)(2)(i)(A)]

- The second payment period is the period of time in which the student successfully completes the remainder of the academic year.
  [§668.4(c)(2)(i)(B)]

For any remaining portion of an eligible program that is more than one half of 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 successfully completes half the clock hours or credit hours and half the number of weeks of instructional time remaining in the program.
  [§668.4(c)(2)(ii)(A)]

- The second payment period is the period of time in which the student completes the remainder of the program.
  [§668.4(c)(2)(ii)(B)]

A school must ensure that the student successfully completes a payment period before the school may deliver a subsequent disbursement of Stafford or PLUS loan funds to the student. A student does not progress to a subsequent payment period until the student successfully completes the number of credit or clock hours and the number of weeks of instructional time in the current payment period. In a non-term-based credit-hour program that is offered in modules, a student's failure to successfully complete one or more courses within a module may delay the student's successful completion of the payment period.

> **Example:** A student enrolls in a non-term-based credit-hour program that is one academic year in length. The school defines the academic year for this program as 24 semester credit hours and 30 weeks of instructional time, consisting of two payment periods of 12 semester credit hours and 15 weeks of instructional time. The program is offered in a series of six modules of 5 weeks of instructional time. In each module, the student enrolls in a single course for which the student will earn 4 semester credit hours. The student fails the course offered in the first 4-hour module in the first payment period of the program. The student cannot progress to the subsequent payment period until he or she has successfully completed 12 semester credit hours in 3 *subsequent* modules.

[10-11 FSA Handbook, Volume 3, Chapter 1, p. 3-21]

For any remaining portion of an eligible program that is not more than one half an academic year, the payment period is the remainder of that program; however, loan funds must be delivered in at least two disbursements, unless the school is exempt from the multiple disbursement requirement as a result of a low cohort default rate (see Subsection 7.7.B).
[§668.4(c)(2)(iii)]

If a school is unable to determine when a student has completed half the clock hours or credit hours in a program, academic year, or the remainder of a program, the student is considered to begin the second payment period of the program, academic year, or the remainder of a program at the later of:

- The date, as determined by the school, that the student has successfully completed one-half of the academic coursework in the program, academic year, or the remainder of the program.
  [§668.4(c)(3)(i)]

- The date when the student successfully completed half of the number of weeks of instruction in the program, academic year, or the remainder of the program.
  [§668.4(c)(3)(ii)]

## 6.3.E
## Excused Absences in Clock-Hour Programs

For the purposes of determining whether a student has successfully completed the clock hours in a payment period, a school may count an excused absence (an absence the student does not have to make up) if:

- The school has a written policy that permits excused absences.
- The number of excused absences under the written policy for purposes of determining payment periods does not exceed the lesser of:
  - The school's accrediting agency's excused absence policy.
  - The excused absence policy of any state agency that licenses or legally authorizes the school to operate in the state.
  - Ten percent of the clock hours in the payment period.

[§668.4(e)]

## 6.3.F
## Students Returning to a Non-Term-Based Credit-Hour or Clock-Hour Program after a Withdrawal

If a student withdraws from a program but re-enters that same program within 180 days, the school is required to place the student in the same payment period in which the student was originally enrolled when the withdrawal occurred. The student is again eligible to receive any loan funds for which he or she was eligible prior to the withdrawal, including any funds that may have been returned by the school or student as part of the return of Title IV funds process.
[§668.4(f)]

If, however, a student returns to the same program after 180 days or, at any time, either transfers into a different program at the same school or enrolls in another school, the applicable school must calculate a new payment period for the remainder of the student's program based on how program progress is measured. For purposes of calculating payment periods only, the length of the program is the number of credit hours or clock hours and the number of weeks of instructional time that the student has remaining in the program he or she entered or re-entered. If the remaining hours and weeks constitute one half of an academic year or less, the remaining hours constitute one payment period.
[§668.4(g)(1) and (2)]

There is one exception to this rule: a school may consider a student who transfers to a different program at the same school to remain in the same payment period if all of the following conditions are met:

- The student is continuously enrolled at the school.
- The coursework in the payment period the student is transferring out of is substantially similar to the coursework the student will be taking when he or she first transfers into the new program.
- The payment periods are substantially equal in length in weeks of instructional time and credit or clock hours.
- There are little or no changes in institutional charges associated with the payment period
- The credits from the payment period the student is transferring out of are accepted toward the new program.

[§668.4(g)(3)]

## 6.4
## 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, or a guarantor acting on behalf of the school, may subsequently modify that schedule. 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 it 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 Section 8.7.

The requirement that disbursements be made on a payment-period basis (see Section 6.3 for information regarding payment periods) does not eliminate any applicable multiple disbursement requirement (see Subsection 6.4.A) for a school to deliver loan proceeds in substantially equal installments, with no installment exceeding one half of the loan amount. See Subsection 6.4.A for information about multiple disbursement and Section 8.7 for information about proportional disbursement and special delivery requirements for programs with nonstandard terms.
[§682.604(c)(6) and (7)]

## 6.4.A Multiple Disbursements and Low Cohort Default Rate Exemptions

The school must establish a disbursement schedule that ensures that a Stafford or PLUS loan is disbursed in two or more installments, regardless of the loan amount. A school may deliver a Stafford or PLUS loan in a single installment only in the following cases:

- For a loan disbursement made on or after October 1, 2011, the school has a cohort default rate of less than 15% for each of the three most recent fiscal years for which data are available, and any one of the following conditions applies:
  - The loan is certified for a period of enrollment that is not more than one semester, trimester, or quarter.
  - In a nonstandard term-based program with terms that are substantially equal and at least 9 weeks of instructional time in length (SE9W), the loan is certified for a period of enrollment that is not more than one nonstandard term. However, a school must schedule at least two disbursements of a loan made for a single, nonstandard term that is SE9W, but that is more than 4 months in length.
  - In a nonstandard term-based program with terms that are not SE9W - i.e., the terms are not substantially equal or each term is not at least 9 weeks of instructional time in length - or in a non-term-based program, the loan is certified for a period of enrollment that is not more than 4 months.
    [HEA §428G(a)(4); §685.301(b)(6)(i)(A)*(2)(ii)*]
- The loan is certified to a student enrolled in a study-abroad program, and the school at which the student will receive course credit for the study-abroad program has an official cohort default rate that is less than 5% for the most recent fiscal year for which data are available.
  [HEA §428G(e); §682.604(c)(8)(ii); §685.303(b)(4)(i)(B)]

A school may begin certifying loans based on these exemptions when it receives from the Department its official cohort default rate notification letter (see Section 16.1) or notification of a successful adjustment or appeal. A school must cease to certify loans based upon these exemptions no later than 30 days after the date it receives notification from the Department of an official cohort default rate that causes the school to no longer meet the necessary qualifications for an exemption.
[§682.603(i)(2); *Cohort Default Rate Guide*]

## 6.4.B When Disbursements May Be Scheduled

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.
  [§668.167(a)(1)(i)]
- 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.
  [§668.167(a)(1)(ii)]

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.
  [§668.167(a)(2)(i)]
- 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.
  [§668.167(a)(2)(ii)]

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. [§668.167(a)(3)(i)]

- 30 days before the first day of the first payment period for a loan disbursed by individual check. [§668.167(a)(3)(ii)]

If the loan period for a Stafford or PLUS loan consists of one payment period, the school must schedule the second 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 in the following types of programs:

  - A standard term-based, credit-hour program.

  - A nonstandard term-based, credit-hour program in which all of the terms are at least nine weeks and substantially equal in length.

- The date the student successfully completes half of the credit or clock hours (or half of the academic coursework) *and* half of the weeks of instructional time in the loan period in the following types of programs:

  - A nonstandard term-based, credit-hour program that does not have substantially equal terms.

  - A nonstandard term-based, credit-hour program that has terms substantially equal in length, but are not all at least nine weeks in length.

  - A non-term-based, credit-hour program.

  - A clock-hour program.

  [§682.604(c)(6)(ii); §685.303(b)(3)(ii)(A)]

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 from the lender may be scheduled is:
[§682.604(c)(6)(i) and (ii); §685.303(b)(3)(ii)(A) and (B)]

- 13 days before the first day of any subsequent payment period for a loan disbursed by EFT or master check. [§668.167(a)(3)(i)]

- 30 days before the first day of any subsequent payment period for a loan disbursed by individual check. [§668.167(a)(3)(ii)]

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 7.7.A.).
[§682.207(d)]

### Earliest Disbursement Scheduling Rules for Credit-Hour Programs Offered in Modules

When a student is enrolled in a credit-hour program offered in modules but the student will not attend the first module in a payment period, the date the school uses to determine when Stafford or PLUS loan funds may be disbursed is the starting date of the first module in the payment period that the school expects the student to attend.
[10-11 FSA Handbook, Volume 3, Chapter 1, pp. 3-20 to 3-21]

For a Stafford loan disbursed by EFT or master check, the earliest date for which a first disbursement by the lender may be scheduled for a student enrolled in a credit-hour program offered in modules is:

- The 28th day of the first module that the student will actually attend 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 module that the student will actually attend for all other borrowers, including a first-year undergraduate, first-time borrower at a school that is not subject to delayed delivery (see Subsection 8.7.D).

For a Stafford loan disbursed by individual check, the earliest date for which a first disbursement by the lender may be scheduled for a student enrolled in a credit-hour program offered in modules is:

- The first day of the first module that the student will actually attend 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 module that the student will actually attend for all other borrowers, including a first-year undergraduate, first-time borrower at a school that is not subject to delayed delivery (see Subsection 8.7.D).

For a PLUS loan, the earliest date for which a first disbursement by the lender may be scheduled for a student enrolled in a credit-hour program offered in modules is:

- 13 days before the first day of the first module that the student will actually attend for a loan disbursed by EFT or master check.

- 30 days before the first day of the first module that the student will actually attend for a loan disbursed by individual check.

If the loan period for a Stafford or PLUS loan consists of one payment period and does not qualify for a multiple disbursement exemption (see Subsection 6.4.A), the school must schedule the second disbursement so that it is delivered no earlier than the *later of* the calendar midpoint between the first and last scheduled days of class of the loan period, or the first day of the first subsequent module that the student will actually attend, in the following types of programs:

- A standard term-based, credit-hour program.

- A nonstandard term-based, credit-hour program in which all of the terms are substantially equal *and* at least 9 weeks of instructional time in length (SE9W).

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 from the lender may be scheduled is:

- 13 days before the first day of the first module that the student will actually attend in any subsequent payment period for a loan disbursed by EFT or master check.

- 30 days before the first day of the first module that the student will actually attend in any subsequent payment period for a loan disbursed by individual check.

#### Early Disbursement for Necessary Books and Supplies

A school must provide certain Pell grant-eligible students with a method to obtain or purchase necessary books and supplies required for the payment period. A school must ensure that the student has access to those funds or to the necessary books and supplies no later than the seventh day of the payment period. A school must provide this access to funds if all of the following criteria apply:

- The student is eligible for Pell grant funds.

- The school could disburse Title IV funds 10 days prior to the start of the payment period for that student.

- A credit balance would be created by the disbursement of all Title IV funds for which the student was eligible 10 days prior to the start of the payment period. This does not include the following:

  - The amount of a Stafford loan disbursement that is subject to a 30-day delay, because the school may not disburse those funds 10 days before the start of that student's payment period.

  - Aid that has not yet been awarded to a student at least 10 days before the start of classes because the student missed a financial aid deadline date.

  - Aid to a student who had not completed the verification process, had an unresolved "C" code on the SAR and ISIR, or had unresolved conflicting information, 10 days prior to the payment period.
    [§668.164(i)]

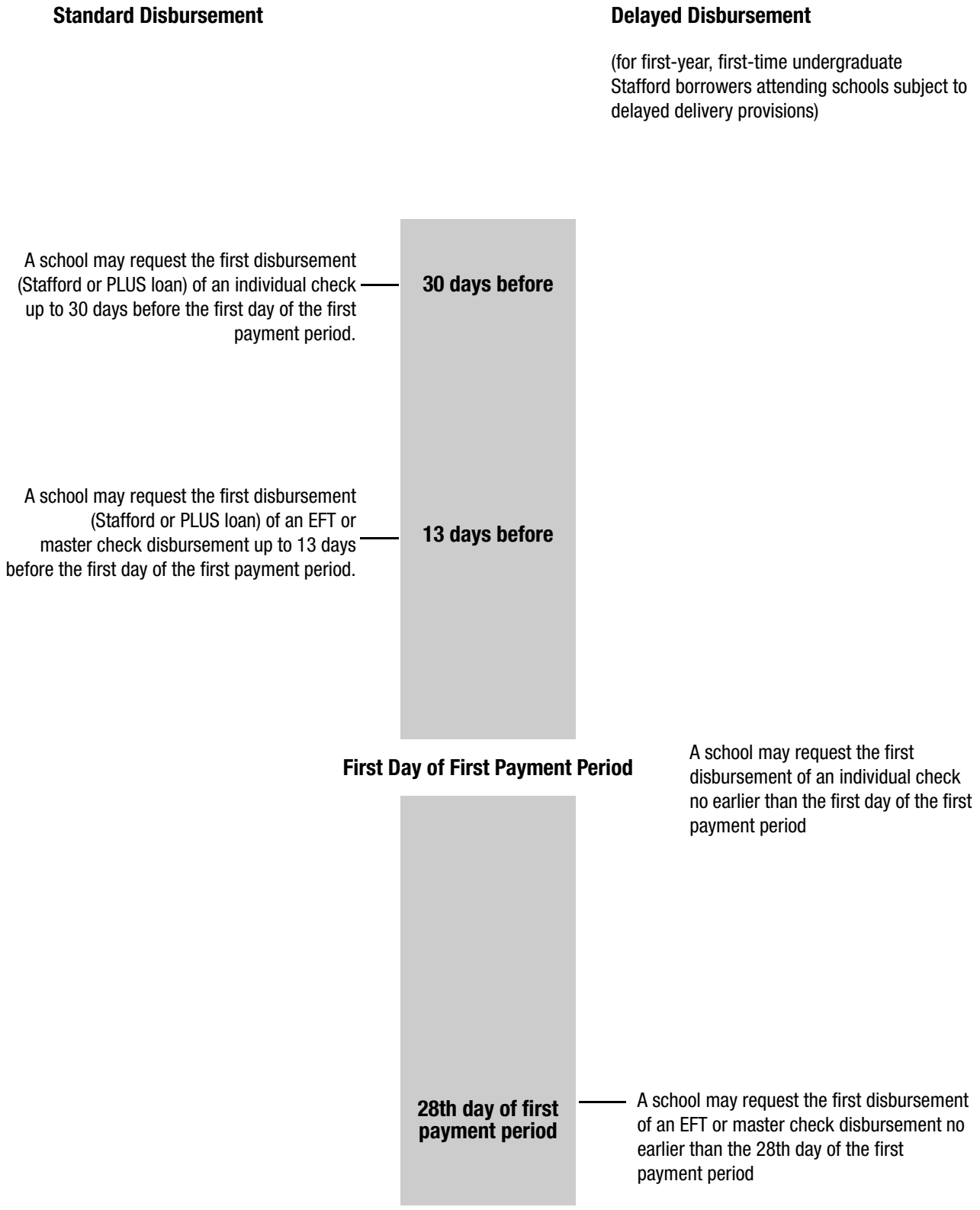
Although this is a requirement for Pell grant-eligible students, a school may use the same process to make funds for necessary books and supplies available to all of its Title IV eligible students.

The school must make a single method available to eligible students and may provide an alternative method by which a student may obtain necessary books and supplies if the student opts out of the school's preferred method. A school has several options for providing its students with a method to obtain the necessary books and supplies, for example, cash or check; stored-value card or bookstore voucher; or, a short-term loan.

## First Disbursement Timeline

## Figure 6-3

Note: the earliest disbursement dates below may not apply to a student enrolled in a credit-hour program offered in modules. See Subsection 6.4.B for more information.



# 6.5 Determining the Student's Cost of Attendance (COA)

In order for a school to certify a borrower's Stafford or PLUS loan, it must determine the loan amount the borrower is eligible to receive. The first factor in this determination is the student's cost of attendance (COA). A student's COA for a loan period 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, and that program of study is greater than an academic year in length, the school must include these total charges in the COA for the first academic year. The cost of attendance for any subsequent academic year must not include any program costs that are assessed at the beginning of the program.
[DCL GEN-09-11; 10-11 FSA Handbook, Volume 3, Chapter 2, p. 3-36]

A tuition and fee charge may be included in the COA only if that charge is actually made to the student and is paid by or on behalf of the student, including payments made by some form of federal student aid. To determine if a charge should be used for Title IV purposes, determine if the student would be required to pay the charge if it were not paid by another source. The school's audit trail must show that actual funds were used to pay all tuition and fee charges. The amount due may not be "written off." If a waiver of tuition and fees is treated as a payment of tuition and fees actually charged to the student by the school, the payment would be considered to be a financial aid resource and the COA calculation would include the full amount of tuition and fees.
[DCL GEN-00-24; 10-11 FSA Handbook, Volume 3, Chapter 2, p. 3-39]

In addition, the COA does not include the costs satisfied by state financial assistance if the state specifies that the funds must be used to pay a specific component of the student's COA, and the state funds were excluded from the student's estimated financial assistance (EFA).
[DCL GEN-06-05]

## 6.5.A COA Components

A student's COA for a loan period is comprised of the following, as applicable:

- 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.

- A room and board allowance, as follows:

  - For a student without dependents who lives at home with parents, the school determines the allowance.

  - For a student without dependents who lives in institutionally owned or operated housing, the school determines a standard allowance based on the amount normally assessed most residents for such housing.

  - For all other students, the school must include an allowance based on reasonably incurred expenses for room and board.

- An allowance for books, supplies, transportation, and miscellaneous personal expenses, as determined by the school. A reasonable amount for the documented rental or purchase of a personal computer may be included as part of this allowance.

- For an independent student with one or more dependents, 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.

- For a student enrolled in a program that requires professional licensure or certification, the school has the option of including the one-time cost of obtaining the first professional credential, as determined by the school. The license or certification must be required by a state or must be commonly accepted as required to practice or be employed in the profession. In addition, the cost must be incurred while the student is enrolled

in school and must not include costs associated with preparing the student for a test required for licensure or certification unless the preparation is part of the eligible program.
[DCL GEN-06-05; DCL GEN-06-10]

- For a physically or intellectually challenged student, 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.

- For a student participating in a study-abroad program, reasonable costs for that program—provided the program is approved for credit by the student's home institution.

- For a student working as part of a cooperative education program, an allowance for reasonable costs associated with such employment.

- Origination and guarantee fees associated with each Stafford or PLUS loan for which the student or parent borrower has applied.
[HEA §472]

## 6.5.B
## COA Exceptions for Correspondence and Distance Education Programs of Study

Generally, the cost of attendance (COA) for a correspondence program of study student may include only tuition and fees, which often include books and supplies. If the cost of books and supplies is separate, then it may also be counted in the COA. However, if the student is fulfilling a required period of residential training, the COA may include required books; supplies; an allowance for travel; and room and board costs incurred for the period of residential training.
[10-11 FSA Handbook Volume 3, Chapter 2, p. 3-38]

The COA for a student receiving instruction via distance education technology (see Section 5.13) may include the documented cost of renting or purchasing equipment required to accommodate the study.
[10-11 FSA Handbook Volume 3, Chapter 2, p. 3-36]

For a distance education program of study in which technology is used to deliver to students any course that is also delivered in person to other students at the school, a financial aid administrator (FAA) at the school must use professional judgment to determine whether the use of distance education technology 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.
[HEA §484(l)(2)]

## 6.5.C
## COA 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. See Section 4.5 for school record retention requirements.
[HEA §472; §668.24; §682.610(b)]

## 6.5.D
## Use of Professional Judgment to Determine COA

A financial aid administrator (FAA) is permitted to increase or decrease a student's cost of attendance (COA) based on extenuating circumstances. Alterations must be documented in the student's file.
[HEA §479A]

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; 11-12 FSA Handbook, Application and Verification Guide, Chapter 5, pp. AVG-103 to AVG-104]

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

# 6.6 Determining the Expected Family Contribution (EFC)

Another factor that a school uses in the determination of the amount and type of loan funds a borrower is eligible to receive is the expected family contribution (EFC). The EFC is the amount a student and his or her family are expected to pay for education expenses and it is determined by the financial information provided by the student and parent(s) on the Free Application for Federal Student Aid (FAFSA). [§668.2(b), definition of *expected family contribution*]

The data provided on the FAFSA is processed using a federally prescribed need analysis formula to derive the 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.

When calculating eligibility for a subsidized Stafford loan, a school may offset all or any portion of the student's EFC with any TEACH grant amount, PLUS loan amount, unsubsidized Stafford loan amount, or other education loan amount obtained for the loan period.
[HEA §442(c); §682.200(b)(2)(i); §682.301(c); §685.102(b)(2)(i)]

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

## 6.6.A Performing Verification Requirements

A school must obtain and use specific 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 the Free Application for Federal Student Aid (FAFSA) is incorrect. Beginning with the 2012-2013 award year, the Department will provide annually in the *Federal Register* a list of the data elements subject to verification and updates regarding acceptable documentation. The school also may establish its own verification policies to require certain students to complete the verification process. The school may choose to originate but may not disburse a new subsidized Stafford loan, or disburse Perkins, Supplemental Education Opportunity Grant, or additional Federal Work-Study funds if the student fails to submit the federally required verification documentation in a timely manner. [§668.54(a); §668.56; §668.58(a)(2)(iii)]

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 FSA Handbook, Application and Verification Guide.
[§668, Subpart E; 11-12 FSA Handbook, Application and Verification Guide, Chapter 5, pp. AVG-104 to AVG-105]

A school may choose to originate but may not disburse subsidized Title IV loan funds until the student completes the verification process. However, unless the school has reason to believe that the information provided on the FAFSA is incorrect, verification is not required if the student has no need—even if the student is selected for verification. Parent PLUS borrowers are not subject to verification, nor are Grad PLUS loan borrowers who are eligible to receive no subsidized Title IV funds, although PLUS loan eligibility may be affected by changes to the student's EFC that result from the verification process. So a graduate student who is eligible only for unsubsidized Stafford loan funds and a Grad PLUS loan need not provide the documentation required under verification rules unless the school's own policies require it. But if the student is eligible for any subsidized campus-based funds, the school still must complete the verification process.
[§668.58(a)(2)(iii)]

### Exemptions

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 4.7).

In addition, the school is not required to complete verification for an aid applicant if any of the following applies:

- The student withdraws prior to being selected for verification and all Title IV funds were disbursed prior to the withdrawal date.
- The student dies.

- The student does not receive Title IV aid based on reasons other than a failure to complete verification.
- The student receives only unsubsidized student aid.
- The aid applicant is a transfer student who completed verification at the previous school, applies for aid at the new school based on the same FAFSA, and the current school obtains a letter from the previous school providing each of the following:
  - A statement that it has verified the student's information.
  - The transaction number of the applicable valid ISIR.

[HEA §487(a)(3); §668.51(c); §668.54(b)]

If CPS selects for verification a student who completed the verification process already, the school need not re-verify any data previously verified and that remains unchanged, but must complete the verification process again for any data not previously confirmed or that was confirmed in the past but changed in the interim.
[§668.54(a)]

#### Change to EFC

If the EFC used to originate Title IV loans changes as a result of the verification process, the school must make the necessary corrections and adjustments to the borrower's loan eligibility. The school must ensure that it eliminates any overaward of loan funds that results from corrections identified during the verification process (see Section 8.6).
[§668.59(c)(1)]

## 6.6.B
## Use of Professional Judgment to Determine EFC

A financial aid administrator (FAA) is permitted to increase or decrease a student's 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.

If the Central Processing System has selected the student for verification, the school must complete that verification process and obtain a new Institutional Student Information Record, if applicable, prior to exercising professional judgment (PJ). If the school's own policies impose the verification requirement, then the school may also establish in its policies whether its verification must precede any PJ.

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.
[HEA §479A; Preamble to the *Federal Register* published October 29, 2010, p. 66903; DCL GEN-92-21; 11-12 FSA Handbook, Application and Verification Guide, Chapter 5, pp. AVG-103 to AVG-104]

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

## 6.7
## Determining the Amount of Estimated Financial Assistance (EFA)

As part of the loan certification process, the school must determine the estimated financial assistance (EFA) the student may receive from other sources. To determine the amount and type of FFELP loan funds for which a borrower is eligible, the school must deduct from the student's cost of attendance (COA) any other types of financial assistance the student has received, or will receive, during the loan period.
[HEA §471]

A student's EFA includes all aid the student—or a parent on behalf of a dependent student—will receive for the loan period from federal, state, institutional, or other sources. Examples of aid that must be included in the EFA are scholarships, grants, financial need-based employment income, and loans—including, but not limited to:

- National service education awards or postservice benefits paid under Title I of the National and Community Service Act of 1990 (AmeriCorps). When determining eligibility for a subsidized Stafford loan, these benefits are excluded from the EFA, as noted later in the section.
  [§682.200(b)(1)(i)]
- Reserve Officer Training Corps (ROTC) scholarships and subsistence allowances awarded under Chapter 2 of Title 10 and Chapter 2 of Title 37 of the U. S. Code.
  [§682.200(b)(1)(ii)]
- Educational benefits paid because of enrollment in a postsecondary education institution, or to cover postsecondary education expenses.
  [§682.200(b)(1)(iii)]

- Fellowships or assistantships, except non-need-based employment portions of such awards.
  [§682.200(b)(1)(iv)]

- Insurance programs for the student's education.
  [§682.200(b)(1)(v)]

- The estimated amount of other federal student aid—including, but not limited to, Federal Pell grant, TEACH grant, and campus-based aid. The gross amount (including fees) of any subsidized Stafford, unsubsidized Stafford, or PLUS loan is also included, except as noted below.
  [HEA §480(j); §682.200(b)(1)(vi)]

A student's EFA does not include:

- Amounts used to replace the expected family contribution (EFC), including any TEACH grant amounts, unsubsidized Stafford loan amounts, PLUS loan amounts, and non-federal non-need-based loans, including private, state-sponsored, and institutional loan funds. However, if the sum of the amounts received that are being used to replace the student's EFC exceeds the EFC, the excess amount is treated as EFA.
  [§682.200(b)(2)(i)]

- For a *subsidized* Stafford loan, national service education awards or postservice benefits paid under Title I of the National and Community Service Act of 1990 (AmeriCorps).
  [§682.200(b), definition of *estimated financial assistance* (2)(iii)]

- Any federal veterans' education benefits, including, but not limited to, those paid under any of the following provisions of federal law:

  - Chapter 103 of Title 10 of the U.S. Code (Senior Reserve Officers' Training Corps).

  - Chapter 106A of Title 10 of the U.S. Code (Educational Assistance for Persons Enlisting for Active Duty).

  - Chapter 1606 of Title 10 of the U.S. Code (Selected Reserve Educational Assistance Program).

  - Chapter 1607 of Title 10 of the U.S. Code (Educational Assistance Program for Reserve Component Members Supporting Contingency Operations and Certain Other Operations).

  - Chapter 30 of Title 38 of the U.S. Code (Montgomery GI Bill-Active Duty).

  - Chapter 31 of Title 38 of the U.S. Code (Training and Rehabilitation for Veterans with Service-Connected Disabilities).

  - Chapter 32 of Title 38 of the U.S. Code (Post-Vietnam Era Veterans' Educational Assistance Program).

  - Chapter 33 of Title 38 of the U.S. Code (Post-9/11 Educational Assistance, including Federal and school contributions to the Yellow Ribbon Program).
    [Electronic Announcement dated August 13, 2009]

  - Chapter 35 of Title 38 of the U.S. Code (Survivors' and Dependents' Educational Assistance Program).

  - Section 903 of the Department of Defense Authorization Act, 1981 (10 U.S.C. 2141 note) (Educational Assistance Pilot Program).

  - Section 156(b) of the Joint Resolution making further continuing appropriations and providing for productive employment for the fiscal year 1983, and for other purposes (42 U.S.C. 402 note) (Restored Entitlement Program for Survivors, also known as Quayle benefits).

  - Chapter 3 of Title 37 of the U.S. Code related to subsistence allowances for members of the Reserve Officers Training Corps.

The exclusion of federal veterans' education benefits from EFA applies regardless of whether the benefits are received by the veteran, the veteran's spouse, or the veteran's dependent.
[HEA §480(c)(2); HEA §480(j)(1); Electronic Announcement dated July 2, 2009]

- Qualified education benefits, including qualified tuition programs (e.g., 529 prepaid tuition plans and savings plans), prepaid tuition plans offered by a state, and Coverdell education savings accounts.
  [HEA §480(f)(3) and (4); DCL GEN-06-05; DCL GEN-06-10]

- Federal Perkins loans and Federal Work-Study (FWS) funds the school determines the student has declined for any reason.
  [HEA §480(j); §682.200(b)(2)(ii)]

- Any portion of EFA previously described that is included in the calculation of the student's EFC.
  [§682.200(b)(2)(iv)]

- Non-need-based employment income.
  [§682.200(b)(2)(v)]

- Non-Title IV state assistance, if that state specifies that the funds must be used to pay a specific component of the student's COA. If the state assistance is excluded from the EFA, then the costs paid by those state funds must also be excluded from the student's COA.
  [HEA §480(j)(3); §682.200(b)(2)(vi); DCL GEN-06-05]

- For a student who is enrolled simultaneously at multiple schools, the amount of a Stafford or PLUS loan certified at another school for the same payment period or period of enrollment. For more information about determining eligibility for a student who is enrolled simultaneously at multiple schools, see Section 5.16.
  [10-11 FSA Handbook, Volume 3, Chapter 5, p. 3-102]

## 6.8 Determining the Student's Dependency Status

A student's dependency status is determined from information provided on the Free Application for Federal Student Aid (FAFSA). A student's dependency status affects the expected family contribution (EFC) and the types and amounts of aid that the student may be eligible to receive.

For purposes of Title IV aid, 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, in foster care, or a ward/dependent of the court, or was an orphan, in foster care, or a ward/dependent of the court at any time when the student was 13 years of age or older.
  [HEA §480(d)(1)(B); DCL GEN-08-01; DCL GEN-08-12]

- The student is or was, immediately prior to attaining the age of majority, an emancipated minor or in legal guardianship as determined by a court in the student's state of legal residence.
  [HEA §480(d)(1)(C); DCL GEN-08-01; DCL GEN-08-12]

- The student has been verified, on or after the start of the award year for which the FAFSA is filed, as either an unaccompanied youth who is a homeless child or an unaccompanied youth at risk of being homeless and self-supporting. For purposes of this criterion, the following definitions apply:

  – *Homeless* means lacking fixed, regular, and adequate housing, which includes living in shelters, motels or cars, or temporarily living with other people because the student has nowhere else to go.

  – *Unaccompanied* means the student is not living in the physical custody of his or her parents or guardian.

  – *Youth* means 21 years of age or younger or the student is still in high school as of the day the FAFSA is completed.

  Homeless status can be verified by any one of the following entities:

  – A local educational homeless liaison, designated pursuant to the McKinney-Vento Homeless Assistance Act.

  - The director of an emergency shelter or transitional housing program funded under the Runaway and Homeless Youth Act.

  - The director of a program funded under the McKinney-Vento Homeless Assistance Act (relating to emergency shelter grants).

  - The financial aid administrator (FAA).
    [HEA §480(d)(1)(H); DCL GEN-08-01; DCL GEN-08-12]

- The student is a veteran of the U.S. Armed Forces. For the purposes of determining dependency status, a student is considered to be a veteran if he or she will meet both of the following criteria prior to the end of the award year for which the FAFSA is filed.

  - The student engaged in active duty in the U.S. Armed Forces; is a National Guard or Reserves enlistee, who was called to active duty for purposes other than training; or was a cadet or midshipman at a service academy (even if the student withdrew before graduation).

  - He or she was released under a condition other than dishonorable.
    [DCL GEN-95-54]

- The student is currently serving on active duty in the U.S. Armed Forces or is a National Guard or Reserves enlistee and is called to active duty for purposes other than training. In this case, active duty does not include a call into active duty for state purposes.
  [HEA §480(d)(1)(D); DCL GEN-06-05; DCL GEN-06-10]

- The student is working on a master's or doctoral program (such as an MA, MBA, MD, JD, PhD, EdD, or graduate certificate, etc.) at the beginning of the award year for which the FAFSA is completed.

- The student is married as of the date the FAFSA is completed.

- The student has at least one child who receives more than half of his or her support from the student.

- The student has a dependent, other than a spouse or a child, who lives with the student and receives more than half of his or her support from the student at the time the FAFSA is completed and through June 30 of the award year.
  [HEA §480(d)(1); DCL GEN-03-07]

A student is considered dependent if he or she does not meet any of the preceding criteria for an independent student unless the FAA determines that the student is independent on the basis of special circumstances and performs a dependency override.
[HEA §480(d)(1)(I); §668.2(b)]

#### Dependency Overrides

If unusual circumstances exist, a financial aid administrator (FAA) may use professional judgment to determine that a student who does not meet any of the above criteria is an independent student. A dependency override affects all Title IV programs (i.e., a student determined to be independent is considered independent for all Title IV programs, not just the FFELP). The FAA must document, in the student's file, the unusual circumstances on which the dependency override was based. The FAA is generally required to acquire third-party documentation supporting a student's unusual circumstances. If the only documentation available to the FAA is a statement by the student, the student's statement must include the facts related to the unusual circumstances. The FAA must also prepare a written statement regarding the dependency determination that includes any other pertinent facts not already covered in the documentation.
[HEA §480(d)(1)(I)]

A determination of unusual circumstances must be made each award year. Further, a change to a student's dependency status by an FAA at one school is not binding on another school. However, an FAA may, at his or her discretion, use the dependency override of an FAA at a prior school, as documented on a Student Aid Report (SAR)/ Institutional Student Information Record (ISIR), for the same student and the same award year without gathering supporting documentation. For subsequent award years, the FAA must make his/her own dependency override determination. The FAA who makes the initial dependency override must prepare a written statement regarding the dependency determination, including the identification of the specific unusual circumstances upon which the FAA is basing the determination. The school that makes the initial dependency override during any award year must maintain this statement and the supporting documentation used to

make the determination. A school that uses the dependency override of another school must retain the SAR/ISIR that was used as the basis for continuing the dependency override. See Section 4.5 for SAR/ISIR recordkeeping requirements.
[HEA §480(d)(2)]

Unusual circumstances may include, but are not limited to:

- An abusive family situation in which an otherwise dependent student has been a victim of domestic violence and is no longer residing with his or her parents.
- Abandonment by parents in which a student's parents cannot be located.

The following four conditions, individually or in combination with one another, do not qualify as unusual circumstances:

- A parent's refusal to contribute to the student's education.
- A parent's unwillingness to provide information on the FAFSA or for verification.
- A parent not claiming the student as a dependent for income tax purposes.
- A student's demonstration of total self-sufficiency.

Note: An FAA is permitted to certify an unsubsidized Stafford loan for a dependent student if the parent(s) has ended all financial support and refuses to complete the parental section of the FAFSA. This is not a situation that permits an FAA to perform a dependency override. See Subsection 6.15.B, subheading "Use of Professional Judgment for a Student Whose Parent(s) Ceases Financial Support and Refuses to Complete FAFSA" for more information.

An FAA may make a dependency override only from dependent to independent. However, if an independent student is receiving substantial support from his or her parents, a school may use professional judgment to adjust one or more of the FAFSA's data elements, such as untaxed income, to reflect this support.
[DCL GEN-03-07; 11-12 FSA Handbook, Application and Verification Guide, Chapter 2, p. AVG-27]

**Required Updates to a Student's Dependency Status**

A student is required to update his or her dependency status if it changes during the award year regardless of whether the student is selected for verification. The only exception is if the student's dependency status changes as the result of a change in marital status. If an unmarried and otherwise dependent student marries after he or she submits the FAFSA, the student remains dependent for the rest of that award year. If the student is still married when he or she submits the FAFSA for the next award year, the student is independent for that award year. If a married student divorces after he or she submits the FAFSA, the student remains independent for the current award year. However, if the student is independent in the current award year solely because he or she is married, the student is dependent in the next award year if he or she cannot answer "yes" to any of the dependency questions on the FAFSA.
[11-12 FSA Handbook, Application and Verification Guide, Chapter 5, p. AVG-101]

If the student's last remaining parent dies after the student submits the FAFSA, the student must update his or her dependency status on the Student Aid Report (SAR) and report income and assets as an independent student.
[11-12 FSA Handbook, Application and Verification Guide, Chapter 2, p. AVG-29]

After the school has certified a Stafford loan, the loan certification cannot be changed to reflect a change in dependency status. However, the school may use the updated status to recalculate the expected family contribution (EFC) and certify additional loans if the student qualifies. The school is liable for any overpayment of Stafford loan funds due to recalculation errors.
[11-12 FSA Handbook, Application and Verification Guide, Chapter 5, p. AVG-101]

# 6.9 Defining Enrollment Status

A school must define full-time enrollment status for each of its undergraduate, graduate, and professional programs of study. A student's enrollment may include any combination of courses, work, research, or special studies. (See Section 6.1 for information regarding the definition of an academic year and the frequency of annual loan limits.) A student's enrollment status may affect the student's cost of attendance (COA), and, therefore, the amount of Title IV aid the school may certify. Note the following situations that affect which courses the school may use to determine the student's Title IV enrollment status:

- With regard to repeated coursework for term-based programs (using standard or nonstandard terms):
  - Previously-failed coursework that is repeated counts toward the student's Title IV enrollment status.
  - Previously-passed coursework that is repeated (for example, to obtain a better grade) may be counted only once toward the student's Title IV enrollment status.
  - Previously-passed coursework that the school requires the student to repeat due to the student failing other coursework may not be counted toward the student's Title IV enrollment status.
- With regard to non-credit or reduced-credit remedial courses, the school must include these courses in the determination of the student's enrollment status if the student qualifies for Title IV aid for the courses. [§668.2(b), definition of full-time student; 10-11 FSA Handbook, Volume 1, Chapter 1, pp. 1-13 to 1-14]

### Undergraduate Students

For an undergraduate student, the school's definition of full-time enrollment for a program must meet, at a minimum, one of the following standards:

- 12 semester or quarter hours per academic term, for a program that measures academic progress in semester, trimester, or quarter hours and uses standard terms (i.e., semesters, trimesters, or quarters).
- For a nonstandard term-based credit-hour program, the product of:

$$\frac{\text{number of weeks of instructional time in the term}}{\text{number of weeks of instructional time in the program's academic year}} \times \text{number of credit hours in the program's academic year}$$

- 24 semester or 36 quarter hours over the weeks of instructional time in the academic year, for a non-term-based credit-hour program, or the prorated equivalent if the program is less than an academic year in length. In this case, a week is any period of 7 consecutive days in which the school provides for at least one day of regularly scheduled instruction, examinations, or preparation for final examinations. Any time frame allotted to such preparation for final examinations must be after the last scheduled day of classes for the term or payment period.
- 24 clock hours per week of instructional time, for a program that measures academic progress 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.

The school's definition of half-time enrollment for an undergraduate program must include at least half of the academic workload of the applicable regulatory minimum full-time enrollment standard for that program, as outlined above.
[§668.2(b)]

### Graduate or Professional Students

For graduate or professional students, a school must define full-time enrollment for each of its programs of study based on academic standards developed by the school. The school's definition of half-time enrollment for a graduate or professional program must include at least half of the full-time academic workload defined by the school for graduate or professional students enrolled in that program.
[§668.2(b)]

### Students Enrolled in a Correspondence Program or Coursework

An undergraduate or graduate student who is enrolled solely in correspondence study is never considered more than a half-time student, even if the student is enrolled in enough correspondence coursework to be considered full time. A school's definition of half-time enrollment for a student enrolled solely in a program of study by correspondence must be at least 12 hours of work per week, or at least six credit hours per semester, trimester, or quarter.
[§668.2(b); 10-11 FSA Handbook, Volume 1, Chapter 1, p. 1-14]

A student who is enrolled in a non-correspondence study program and combines correspondence coursework with regular coursework may be considered full-time. For a graduate or professional student, a school must define full-time enrollment for each of its programs. For an undergraduate student, a school's definition of full-time enrollment must equal or exceed the applicable minimum full-time enrollment standard (see the subheading in this section entitled *Undergraduate Students* for further information). In addition, an undergraduate student enrolled in a non-correspondence program who combines correspondence coursework with regular coursework is considered full-time only if at least half of the student's full-time academic workload is comprised of regular (i.e., non-correspondence) coursework that meets half of the school's definition of a full-time academic workload for students enrolled in that program.
[§668.2(b)]

## 6.10
## Determining the Student's Grade Level

A school is required to publish the academic standards and grade level advancement requirements for each of its programs of study. Because Stafford annual loan limits have been established for each grade level (e.g., first-year, second-year, etc.), a student's grade level is an intrinsic part of determining the loan amount for which the student is eligible and thus, the amount of the loan the school may certify. See Figure 6-4 for more information about the Stafford annual loan limits that apply to a student's grade level.

### Undergraduate Students

The school may advance an undergraduate student's grade level once the student completes the number of credit or clock hours specified by the school as the amount necessary for the student to advance in academic standing within the student's program of study (for example, from first-year to second-year). At a minimum, the school's standards must require the student to complete at least 24 semester or trimester hours, 36 quarter hours, or 900 clock hours to advance the student to the next grade level.
[§668.3(a)(2)]

Note: If a school's published academic standing requirements exceed the school-defined academic year for a program, the school is required to use the published academic standing requirements to certify a student's grade level for loan purposes. For example, a school defines its academic year for a program as the completion of 24 credits in 30 weeks of instructional time, but requires the successful completion of 30 credits for a student to advance from first-year to second-year standing. In this case, if a student completes fewer than 30 credits during his or her first academic year, the student remains eligible for first-year undergraduate loan limits at the beginning of his or her second academic year. The school may not certify a second-year undergraduate loan until the student successfully completes 30 credits, as required by the school to advance from first-year to second-year standing.

### Graduate and Professional Students

A graduate or professional student's grade level is advanced according to the school's academic standards for the program of study in which the student is enrolled.

# 6.11 Loan Limits

Based on all information available, a school is responsible for certifying a loan amount that ensures a borrower does not receive a loan in excess of the Stafford annual or aggregate loan limits. A PLUS loan may not exceed the cost of attendance (COA) minus the student's estimated financial assistance (EFA) for the loan period. There is no annual or aggregate loan limit for a PLUS loan. [§682.506(a); §682.603(e)(2)(i); DCL GEN-92-21; 10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-107]

For more information on Stafford annual and aggregate loan limits, schools should refer to Subsections 6.11.A and 6.11.B, Figure 6-4, and the guidelines issued by the Department in the 08-09 FSA Handbook, Volume 3, Chapter 5. For more information about the impact of simultaneous, multiple school enrollment on annual loan limits, see Section 5.16.

## 6.11.A Stafford Annual 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 limits vary according to several factors:

- The student's dependency status, as defined in Section 6.8.
- For a dependent student, the student's enrollment in undergraduate or graduate preparatory coursework, or teacher certification or recertification coursework (see Figure 6-4).
  [DCL GEN-08-08]
- The student's grade level, i.e., year of study in which the student is enrolled (first, second, third, fourth, or subsequent year), according to the school's academic standards and grade level advancement policies (see Section 6.10).
- 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 program's academic year definition.
  [§682.204(i)]

A Stafford annual loan limit does not include any of the following:

- 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 (FAA) 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 annual limit.
- The amount of any TEACH grant that has been converted to an unsubsidized Direct Stafford loan.
  [§682.204(m)]

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 Figure 6-4.

If a student is ineligible for subsidized Stafford loan funds, the student may borrow the entire Stafford annual and aggregate undergraduate loan limits in unsubsidized Stafford loan funds.

In determining the appropriate Stafford annual loan limits for an undergraduate student, schools must adhere to the following additional parameters:

- A student who is enrolled in a program that is more than one academic year in length and has not successfully completed the first year of that program is eligible for Stafford loan funds not to exceed the annual loan limits applicable to first-year undergraduate students, regardless of the actual length of time it takes the student to complete the first academic year of the program.
  [§682.204(a)(1), (a)(9)(i), (d)(1) and (8)(i)]

- A student who is enrolled in an undergraduate program that is one academic year or less in length is eligible for Stafford loan funds not to exceed the annual loan limits applicable to first-year undergraduate students, regardless of the actual length of time it takes the student to complete the program.
  [§682.204(a)(1), (a)(8), (d)(1) and (7)]

- A student who is enrolled in an undergraduate program that is more than one academic year in length and has successfully completed the first year in that program but has not successfully completed the second year of the program is eligible for Stafford loan funds not to exceed the annual loan limits applicable to second-year undergraduate students, regardless of the actual length of time it takes the student to complete the second academic year of the program.
  [§682.204(a)(2), (a)(9)(ii), (d)(2) and (8)(ii)]

- A student who has an associate degree or bachelor's degree that is required for admission into a program and who is not a graduate or professional student is eligible for Stafford loan funds not to exceed the annual loan limits applicable to third-year and beyond undergraduate students. In this case, in order to determine the student's grade level and the applicable annual loan limit, the school may consider the number of years the student completed in the required degree program.
  [§682.204(a)(3), (a)(4), and (d)(4)]

- In a credit-hour program with standard terms or nonstandard terms that are substantially equal in length and at least nine weeks of instructional time in length (SE9W), a student who experiences a grade level change within the academic year becomes eligible for the Stafford annual loan limits that are applicable to the new grade level, minus any loan funds already received for that academic year. In a clock-hour program, a non-term-based credit-hour program, a credit-hour program with nonstandard terms that are *not* SE9W (i.e., the terms are not substantially equal, or each term is not at least nine weeks of instructional time in length), or a program with a combination of standard and nonstandard terms that does not qualify to use an SAY, the school may not certify the higher loan limit associated with the next grade level until the student successfully completes (i.e., passes) the number of credit or clock hours and completes the weeks of instructional time in the program's defined academic year.
  [10-11 FSA Handbook, Volume 3, Chapter 6, pp. 3-119 to 3-120]

- A dependent student who is enrolled as a regular student in an eligible undergraduate degree or certificate program and whose parent has *not* been determined to be unable to obtain a PLUS loan is eligible to borrow up to the base Stafford annual loan limit applicable to the student's current grade level plus an additional $2,000 in unsubsidized Stafford loan funds (see Figure 6-4). Such a student who is enrolled in preparatory coursework necessary for the student to enroll in an undergraduate or graduate program, or teacher certification or recertification coursework, is eligible to borrow only the base Stafford annual loan limit (see the following three bullets).
  [HEA §428H(d)(3)(A); DCL GEN-08-08]

- A student who has a bachelor's degree and is enrolled or accepted for enrollment in coursework necessary for a professional credential or certification from a state that is required for employment as a teacher in an elementary or secondary school in that state is eligible to borrow the following:

  – For a dependent student, the base Stafford annual loan limit of up to $5,500.

  – For an independent student, or a dependent student whose parent is unable to obtain a PLUS loan (because the parent has adverse credit or other exceptional circumstances that are documented by the FAA), the combined subsidized and unsubsidized Stafford annual loan limit of up to $12,500. Of the total amount borrowed for the year, no more than $5,500 may consist of subsidized Stafford loan funds (see Figure 6-4).

  The loan limits for this category of student are not prorated.
  [HEA §428H(d)(2)(A)(ii); §682.204(a)(7) and (d)(6)(iii); DCL GEN-08-08]

- 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 is eligible to borrow the following:

  – For a dependent student, the base Stafford annual loan limit of up to $2,625.

  – For an independent student, or a dependent student whose parent is unable to obtain a PLUS loan (because the parent has adverse credit or other exceptional circumstances that are documented by the FAA), the combined subsidized and unsubsidized Stafford annual loan limit of up to $8,625. Of the total amount borrowed for the year, no more than $2,625 may consist of subsidized Stafford loan funds (see Figure 6-4).

  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. The loan limits for this category of student are not prorated.
  [HEA §428H(d)(4)(A)(iii); §682.204(a)(6)(i) and (d)(6)(i); DCL GEN-08-08]

- 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 is eligible to borrow the following:

  – For a dependent student, the base Stafford annual loan limit of up to $5,500.

  – For an independent student, or a dependent student whose parent is unable to obtain a PLUS loan (because the parent has adverse credit or other exceptional circumstances that are documented by the FAA), the combined subsidized and unsubsidized Stafford annual loan limit of up to $12,500. Of the total amount borrowed for the year, no more than $5,500 may consist of subsidized Stafford loan funds (see Figure 6-4).

  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 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. The loan limits for this category of student are not prorated.
  [HEA §428H(d)(2)(A)(ii); §682.204(a)(6)(ii) and (d)(6)(ii); DCL GEN-98-2; DCL GEN-08-08]

A school may not link separate, stand-alone programs of study to allow a student to qualify for higher annual loan limits than the student would otherwise be eligible to receive based on the length of the program.
[§682.204(a) through (d); DCL GEN-98-2; 10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-121]

#### Graduate and Professional Students

A student enrolled in a graduate or professional program of study is eligible to borrow a combined subsidized and unsubsidized Stafford annual loan limit of up to $20,500 for each academic year. Of the total amount borrowed for the year, no more than $8,500 may consist of subsidized Stafford loan funds. If a student is ineligible for subsidized Stafford loan funds, the student may borrow the entire $20,500 Stafford annual loan limit in unsubsidized Stafford loan funds.
[§682.204(a)(5) and (d)(5)]

Exception: Increased unsubsidized Stafford annual loan limits are authorized for certain health profession students (see Subsection 6.11.D).

#### Transfer Students

If a student borrows Stafford loan funds to attend one school and then transfers to a new school, the new school is not permitted to certify a Stafford loan until it determines whether the student's new academic year will overlap with the final academic year in the program at the prior school. This requires the new school to determine the student's academic year in the prior school's program using either of the following methods:

- Obtain documentation from the prior school about the academic year for the program in which the student was enrolled.

- Make assumptions about the program's academic year at the prior school based on information obtained from the National Student Loan Data System (NSLDS). Schools that use this method must determine that the academic year for the program at the prior school ended on the *later* of the following:

  – 30 weeks after the first day of the most recent loan period listed.

- The end date of the loan period for all loans made in the academic year.

If the final academic year in the prior school's program does not overlap with the initial academic year in the new school's program, the new school may certify a Stafford loan for no more than the Stafford annual loan limit applicable to the student's grade level in the new program. If the final academic year in the prior school's program *does* overlap with the initial academic year in the new school's program, the new school may certify a Stafford loan for no more than the Stafford annual loan limit for the student's grade level in the new program *minus* the Stafford loan amount the student received for the final academic year in the program at the prior school.
[*Dear Guaranty Agency Director Letter* March 16, 1994; 10-11 FSA Handbook, Volume 3, Chapter 6, pp. 3-126 to 3-128]

These same general principles apply to a student who transfers from one program of study to another program of study within the same school. See below for specific information about determining remaining Stafford loan eligibility for a student who transfers during an academic year from one program to another at the same school, based on the type of program into which the student transfers.

#### Grade Level Changes

A student's annual loan limit may change if the student progresses to a higher grade level or chooses to drop back to a lower grade level to pursue additional studies. The information below outlines the impact of such changes.

*Undergraduate Changes in the Same Academic Year*

In a credit-hour program that uses standard terms or nonstandard terms that are substantially equal *and* at least nine weeks of instructional time in length (SE9W), a student who experiences a grade level change within the academic year becomes eligible for the Stafford annual loan limits that are applicable to the new grade level. To provide an increased Stafford loan amount to a student who becomes eligible for the higher Stafford annual loan limits due to a grade level change, a school may do one of the following:

- Request an increase in the amount of the current Stafford loan (see Section 6.20).

- Certify a new loan for a loan period that includes only the term(s) during which the student qualifies for the higher annual loan limit. The new Stafford loan amount must not exceed the higher grade level's annual loan limit, minus the amount of the first Stafford loan for the same academic year.

- Cancel an undelivered Stafford loan disbursement(s) from the first loan that is intended for a term(s) in which the student qualifies for the higher Stafford annual loan limit. The school must determine eligibility for this one term loan using the cost of attendance (COA) minus the expected family contribution (EFC) minus estimated financial assistance (EFA). The amount of the new Stafford loan certified for the term(s) during which the student qualifies for the higher annual loan limit must not exceed the amount of the canceled disbursement(s) plus the additional amount for which the student is eligible due to the grade level change.

A school may not certify the higher annual loan limit associated with the next grade level until the student completes both the minimum number of weeks of instructional time and the minimum number of credit or clock hours in the program's defined academic year if the student is enrolled in any one of the following programs:

- A clock-hour program.

- A non-term-based credit-hour program.

- A credit-hour program with nonstandard terms that are not SE9W, i.e., the terms are not substantially equal in length, or each term is not at least nine weeks of instructional time in length.

- A credit-hour program with a combination of standard terms and nonstandard terms that does not qualify to use an SAY.

[10-11 FSA Handbook, Volume 3, Chapter 6, pp. 3-119 to 3-121]

*Undergraduate and Graduate Grade Levels in the Same Academic Year*

A student who progresses from an undergraduate to a graduate status in a single academic year is eligible for the increased graduate Stafford loan limit. A school may request an increase in the amount of the current Stafford loan (see Section 6.20). Alternatively, a school may certify a new loan for a loan period that includes only the term(s) during which the student qualifies for the higher annual loan limit. The new Stafford loan amount must not exceed the higher graduate level annual loan limit, minus the

amount of the undergraduate Stafford loan certified for the same academic year. The school may not certify more than the graduate annual loan limit for the entire academic year.
[10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-119]

If a student transfers from a graduate program to an undergraduate program within an academic year, then the undergraduate loan limit for the student's grade level applies. But amounts previously borrowed at the graduate level within the same academic year do not count against the undergraduate annual loan limit. The total amount awarded for the academic year may not exceed the higher (graduate or professional) annual loan limit.
[10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-110]

*Grade Level Changes upon Transfer*

If the student's grade level decreases as a result of a transfer between schools or between programs at the same school and an academic year overlap exists, the new school must not certify a Stafford loan for more than the Stafford annual loan limit for the student's decreased grade level at the new school *minus* the outstanding loan amount the student received during the final academic year at the prior school or in the prior program at the same school. The exception to this rule is a transfer from a graduate program to an undergraduate program within an academic year. (See the preceding discussion of changes between undergraduate and graduate levels.)
[10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-121]

*Grade Level Changes in a Dual-Degree Program*

A student who is enrolled in a program in which the student completes both a bachelor's degree and either a graduate or professional degree within the same program is considered to be enrolled in a dual-degree program. For the purpose of Stafford annual loan limits, the school must consider such a student to be an undergraduate for at least the first three years of the program. The school determines at what point after three years the student ceases to be an undergraduate and becomes eligible for the increased loan limits available to a graduate student.
[§668.2(b)]

**Transfer to a Credit-Hour Program with Standard Terms or Nonstandard Terms That Are SE9W**

*Transfer between Schools*

*Example:* A dependent undergraduate student received a subsidized Stafford loan in the amount of $2,000 as a grade level 3 student at School A for the loan period August 21, 2009, to December 20, 2009. The student then enrolls in School B, where he was classified as grade level 1 in a credit-hour program with standard terms or nonstandard terms that are SE9W. School B wishes to certify a loan from his start date, January 5, 2010.

School B opts to use the "assumption" method of determining the academic year for the program at School A. The most recent loan period at School A began August 21, 2009; the end date of the minimum 30-week academic year, based on that date, would be March 18, 2010. When compared to the end date of School A's loan period, the later of these two dates is March 18, 2010; therefore, the assumed end date of the final academic year in School A's program is March 18, 2010.

Because the academic year in School B's program begins prior to the assumed end date of the final academic year in School A's program, the maximum Stafford loan amount that the student may receive is the dependent student's grade level 1 Stafford annual loan limit at School B ($5,500, of which no more than $3,500 may consist of subsidized Stafford loan funds), minus the Stafford loan amount the student received for the final academic year of the program at School A ($2,000 in subsidized Stafford loan funds). School B may initially certify a combined subsidized and unsubsidized Stafford loan amount that does not exceed $3,500, of which no more than $1,500 may consist of subsidized Stafford loan funds. The initial loan period at School B begins on the student's start date, January 5, 2010, and ends no later than the end date of the initial academic year at School B.

For a subsequent term(s) that begins after the end of the final academic year in School A's program, but within the initial academic year of School B's program, School B may certify a subsequent Stafford loan that does not exceed the dependent student's grade level 1 Stafford annual loan limit at School B ($5,500, of which no more than $3,500 may consist of subsidized Stafford loan funds), minus the amount the student already received at School B for the initial academic year. If the student advances to a subsequent grade level for the subsequent term(s) that

begins after the end of the final academic year in School A's program but within the initial academic year of School B's program, School B may certify a combined subsidized and unsubsidized Stafford loan amount that does not exceed the higher Stafford annual loan limit for the student's grade level (e.g., $6,500 for grade level 2), minus the amount the student already received at School B for the initial academic year.
[10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-126]

*Transfer between Programs at the Same School*

The same principles illustrated in the example above apply to a student who transfers from one program to another program at the same school when the program into which the student transfers is a credit-hour program with standard terms or nonstandard terms that are SE9W.
[10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-126]

### Transfer to a Clock-Hour Program, a Non-Term-Based Credit-Hour Program, or a Credit-Hour Program with Nonstandard Terms That Are Not SE9W

*Note:* The following also applies to a student who transfers into a credit-hour program with a combination of standard terms and nonstandard terms that does not qualify to use an SAY.

*Transfer between Schools*

*Example:* A dependent undergraduate student received a subsidized Stafford loan in the amount of $2,000 as a grade level 3 student at School A for the loan period August 21, 2009, to December 20, 2009. The student then enrolls in School B, where he is classified as a dependent, grade level 1 student in a clock-hour program, a non-term-based credit-hour program, or a credit-hour program with nonstandard terms that are *not* SE9W (i.e., the terms are not substantially equal in length, or each term is not at least nine weeks of instructional time in length). School B wishes to certify a loan from his start date, January 5, 2010. School B opts to contact School A and determines that the final academic year in School A's program ends May 11, 2010. The student's initial Stafford loan eligibility at School B is dependent upon whether School B accepts credit or clock hours earned at a prior school toward completion of the program in which the student enrolls at School B.

*School B Accepts Credit or Clock Hours*

School B accepts credit or clock hours earned at another school (School A or a different school) toward completion of the program at School B in which the student enrolls. Because the initial academic year in School B's program begins prior to the end date of the final academic year in School A's program, *and* because School B accepts credit or clock hours from another school in transfer toward requirements of School B's program, the initial loan period at School B is the *lesser* of the following:

- The remainder of the final academic year in School A's program.

- The final period of study in School B's program.

[§682.603(f)(1)(ii)]

If the remainder of the final academic year in School A's program is shorter than the final period of study in School B's program, the initial loan period at School B begins on the student's start date at School B, January 5, 2010, and ends on the end date of the final academic year in School A's program, May 11, 2010. For this initial loan, the student may receive no more than the dependent student's grade level 1 Stafford annual loan limit at School B ($5,500, of which no more than $3,500 may consist of subsidized Stafford loan funds), minus the Stafford loan amount the student received for the final academic year in School A's program ($2,000 in subsidized Stafford loan funds). School B may initially certify a combined subsidized and unsubsidized Stafford loan amount that does not exceed $3,500, of which no more than $1,500 may consist of subsidized Stafford loan funds. After the final academic year in School A's program ends on May 11, 2010, the student enters a new academic year for Stafford annual loan limit purposes, and School B may certify a Stafford loan(s) for the next full academic year or for the student's final period of study, if less than a full academic year.

If the final period of study in School B's program is shorter than the remainder of the final academic year in School A's program, the initial loan period at School B begins on the student's start date at School B, January 5, 2010, and ends on the date School B expects the student to complete the number of credit or clock hours and weeks of instructional time in the final period of study in School B's program. Because this student is enrolled in an undergraduate program, the student's Stafford annual loan limit at School B must be prorated based on the number of hours

that School B expects the student to complete during the final period of study in School B's program at the time School B certifies the loan (see Subsection 6.11.F). School B may certify a Stafford loan amount that does not exceed the *lesser* of the following:

- The grade level 1 Stafford annual loan limit, minus the Stafford loan amount the student received for the final academic year in School A's program.

- The prorated grade level 1 Stafford annual loan limit.

[10-11 FSA Handbook, Volume 3, Chapter 6, pp. 3-128 to 3-129]

*School B Does Not Accept Credit or Clock Hours*

School B does not accept credit or clock hours earned at another school (School A or a different school) toward completion of the program at School B in which the student enrolls. Because the initial academic year in School B's program begins prior to the end date of the final academic year in School A's program, *and* because School B does *not* accept credit or clock hours in transfer toward the requirements of School B's program, the initial loan period at School B is the academic year for the program in which the student enrolls at School B. The initial loan period at School B begins on the student's start date at School B, January 5, 2010, and ends on the date that School B expects the student to complete the credit or clock hours and weeks of instructional time in the academic year definition for the student's program. For this initial loan, the student may receive no more than the dependent student's grade level 1 Stafford annual loan limit at School B ($5,500, of which no more than $3,500 may consist of subsidized Stafford loan funds), minus the Stafford loan amount the student received for the final academic year in School A's program ($2,000 in subsidized Stafford loan funds). School B may initially certify a combined subsidized and unsubsidized Stafford loan amount that does not exceed $3,500, of which no more than $1,500 may consist of subsidized Stafford loan funds. After the student successfully completes the credit or clock hours and completes the weeks of instructional time in the initial academic year for the program at School B, the student enters a new academic year for annual loan limit purposes. School B may then certify a subsequent loan(s) for the next full academic year or for the student's final period of study in the program, if less than a full academic year.

[10-11 FSA Handbook, Volume 3, Chapter 6, pp. 3-127 to 3-128]

*Transfer between Programs at the Same School*

A school may, but is not required to, consider a student who transfers from one program to a clock-hour program, a non-term-based credit-hour program, a credit-hour program with nonstandard terms that are *not* SE9W, or a credit-hour program with a combination of standard and nonstandard terms that does not qualify to use an SAY to be in the same payment period and loan period if all of the following criteria are met:

- The student is continuously enrolled at the school.

- The coursework in the payment period from which the student is transferring is substantially similar to the coursework the student will take when he or she first transfers into the new program.

- The payment period in the program from which the student is transferring is substantially equal in weeks of instructional time and in credit or clock hours to the payment period into which the student will transfer. The payment periods are substantially equal in weeks of instructional time if neither payment period is more than two weeks of instructional time longer than the other payment period.

- There is little or no change in the institutional charges the school assesses to the student for the payment period.

- The credit or clock hours from the payment period from which the student is transferring are accepted toward the new program.

[§668.4(g)(3); 10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-128]

A school may be required to adjust the original loan period end date or a second or subsequent disbursement date(s) if, as a result of the program transfer, the school expects the student to successfully complete the credit or clock hours and complete the weeks of instructional time in the payment period or academic year on a different date. See Subsections 6.1.B and 6.4.B.

[10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-128]

In all other cases, a school must place a student in a new payment period and a new loan period when, during an academic year, the student transfers from one program to a clock-hour program, a non-term-based credit-hour

program, a credit-hour program with nonstandard terms that are not SE9W, or a credit-hour program with standard and nonstandard terms that does not qualify to use an SAY. The school may be required to establish a withdrawal date (see Section 9.4) and perform a return of Title IV funds calculation based on the student's withdrawal from the prior program during a payment period or, as applicable, period of enrollment. (See Subsection 9.5.A for more information about calculating a return of Title IV funds on a payment period or period of enrollment basis). The school must also cancel any undelivered disbursement(s) from the original loan for which the student is ineligible. The new loan period for the new program begins on the student's start date in the new program and ends on the date that the school expects the student to complete the credit or clock hours and weeks of instructional time in the new program's academic year. The school may certify an initial Stafford loan for the new program that does not exceed the Stafford annual loan limit for the student's grade level in the new program minus the loan amount the student received during the prior program's final academic year.
[10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-129]

If a student transfers to a new program at the same school to complete a final period of study of less than one academic year, the new loan period for the new program begins on the student's start date in the new program and ends on the date that the school expects the student to complete the credit or clock hours and weeks of instructional time in the program's final period of study. In this situation, if the new program is an undergraduate program, the student's Stafford annual loan limit must be prorated based on the number of hours that the school expects the student to complete during the final period of study in the new program (see Subsection 6.11.F). If an overlap exists with the prior program's academic year, the school may certify a Stafford loan amount that does not exceed the *lesser* of the following:

- The Stafford annual loan limit for the student's grade level in the new program, minus the Stafford loan amount the student received for the prior program's final academic year.

- The prorated Stafford annual loan limit for the student's grade level in the new program (see Subsection 6.11.F).

[10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-129]

*Completing a Program and Beginning Another Program at the Same School during an Academic Year*

A school may certify a loan for the remainder of an academic year for a student who completes a program and begins a new program at the same school if the following criteria are met:

- The student's last loan to complete the prior program was for a period of less than an academic year.

- The student then begins a new program at the same school within the same academic year.

[§682.603(f)(1)(iii); 10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-129]

The new loan for the new program begins on the date that the student starts the new program and ends on the date that the school expects the student to complete the number of credit or clock hours and weeks of instructional time in the prior program's academic year. For this initial loan in the new program, the school may certify a Stafford loan amount that does not exceed the Stafford annual loan limit for the student's grade level in the new program, minus the loan amount the student received during the prior program's final academic year.

## Stafford Annual and Aggregate Loan Limits for Undergraduate Students

**Figure 6-4**

| | Length of Program or Final Period of Enrollment |
|---|---|
| | Program of study of at least a full academic year in length |
| **Preparatory Coursework for Undergraduate Program** | |
| Base Stafford eligibility (subsidized and unsubsidized) | $2,625 |
| Additional unsubsidized Stafford eligibility (dependent student, excluding a student whose parent is unable to obtain a PLUS loan) | N/A |
| Additional unsubsidized Stafford eligibility (independent student or dependent student whose parent is unable to obtain a PLUS loan) | $6,000 |
| **First-Year Undergraduates** | |
| Base Stafford eligibility (subsidized and unsubsidized) | $3,500 |
| Additional unsubsidized Stafford eligibility (dependent student, excluding a student whose parent is unable to obtain a PLUS loan) | $2,000 |
| Additional unsubsidized Stafford eligibility (independent student or dependent student whose parent is unable to obtain a PLUS loan) | $6,000 |

| | Length of Program or Final Period of Enrollment |
|---|---|
| | Program of study of at least a full academic year in length |
| **Second-Year Undergraduates** | |
| Base Stafford eligibility (subsidized and unsubsidized) | $4,500 |
| Additional unsubsidized Stafford eligibility (dependent student, excluding a student whose parent is unable to obtain a PLUS loan) | $2,000 |
| Additional unsubsidized Stafford eligibility (independent student or dependent student whose parent is unable to obtain a PLUS loan) | $6,000 |
| **Third-Year and Beyond Undergraduates** | |
| Base Stafford eligibility (subsidized and unsubsidized) | $5,500 |
| Additional unsubsidized Stafford eligibility (dependent student, excluding a student whose parent is unable to obtain a PLUS loan) | $2,000 |
| Additional unsubsidized Stafford eligibility (independent student or dependent student whose parent is unable to obtain a PLUS loan) | $7,000 |
| **Teacher Certification Coursework or Preparatory Coursework for Graduate or Professional Program** | |
| Base Stafford eligibility (subsidized and unsubsidized) | $5,500 |
| Additional unsubsidized Stafford eligibility (dependent student, excluding a student whose parent is unable to obtain a PLUS loan) | N/A |
| Additional unsubsidized Stafford eligibility (independent student or dependent student whose parent is unable to obtain a PLUS loan) | $7,000 |

**Dependent Undergraduate Students**

The total amount of subsidized and unsubsidized Stafford loans made for any academic year to a dependent undergraduate student enrolled in undergraduate or graduate preparatory coursework, or teacher certification coursework, may not exceed the "base Stafford eligibility" specified above for that student's grade level. The total amount of subsidized and unsubsidized Stafford loans made for any academic year to a dependent, first-year and beyond undergraduate student may not exceed the "base Stafford eligibility" specified above for that student's grade level plus an "additional unsubsidized Stafford eligibility" amount of $2,000. 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 $31,000. Of the total amount borrowed, no more than $23,000 may consist of subsidized Stafford loan funds.

[HEA §428(b)(1)(B)(i); HEA §428H(d)(3); §682.204(b)(1) and (e)(1); DCL GEN-08-08]

If a dependent undergraduate student's parent is unable to obtain a PLUS loan (because the parent has adverse credit 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 Subsection 6.15.D for more information.) The student's aggregate unpaid principal amount of all Stafford loans (including all 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 $57,500 for undergraduate study. Of the total amount borrowed, no more than $23,000 may consist of subsidized Stafford loan funds.

[HEA §428(b)(1)(B)(ii); HEA §428H(d)(4)(A) and (B); §682.204(b)(1) and (e)(1); §682.204(d); DCL GEN-08-08]

**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 $57,500 for undergraduate study. Of the total amount borrowed, no more than $23,000 may consist of subsidized Stafford loan funds.

[HEA §428(d)(4); HEA §428H(d)(4)(B); §682.204(b)(1) and (e)(1); DCL GEN-08-08]

# 6.11.B
# Stafford Aggregate Loan Limits

In determining the student's eligibility for loans in the current year, the school must also consider the outstanding loans the student has previously borrowed. The school may not certify a loan amount that would cause the student to exceed applicable aggregate loan limits. [§682.204(e)]

A Stafford aggregate loan limit does not include any of the following:

- 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 (FAA) 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.

- The amount of any PLUS loan borrowed by the student or his or her parents.

- The amount of any TEACH grant that has been converted to an unsubsidized Direct Stafford loan. [§682.204(m)]

A borrower who has reached the Stafford aggregate loan limit and whose principal is paid in part through refunds, returned funds, 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.

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 Subsection 6.11.G for more information. [§682.204(j)]

- The amount of any outstanding Direct Stafford loan made under the FDLP. [§682.204(e)]

The amount that a student borrows while enrolled as a graduate or professional student does not count toward the student's undergraduate Stafford aggregate loan limit. However, the loans borrowed for graduate or professional study must be included in determining if the student has exceeded the combined Stafford aggregate loan limit of $138,500. Subsidized Stafford loans for undergraduate and graduate or professional study may comprise no more than $65,500 of the combined Stafford aggregate loan limit. [10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-110]

In determining the appropriate Stafford aggregate loan limit for an independent undergraduate student borrower, a dependent student borrower whose parent is unable to obtain a PLUS loan, or a graduate or professional student borrower, schools and lenders must adhere to the following additional parameters:

- An eligible student may continue to borrow until he or she reaches the aggregate loan limits for subsidized and unsubsidized loans, regardless of the "base" or "additional" unsubsidized loan amounts borrowed.

- If a student's status changes from independent to dependent or if the student's parent is initially unable to obtain a PLUS loan but is later determined eligible, special calculations are required to determine the student borrower's remaining loan eligibility. In these cases, the school must calculate the remaining aggregate loan eligibility by totaling only those portions of loans previously received that represent base loan amounts. Any additional unsubsidized loan amounts received when the borrower was an independent student, or when his or her parent was unable to obtain a PLUS loan, are *not* to be included in the loan limit calculations.

### Undergraduate Students

A dependent undergraduate student borrower is eligible to borrow up to a combined subsidized and unsubsidized base Stafford aggregate loan limit of $31,000 (including all Direct Stafford loans received or any portion of an outstanding Consolidation loan that fully repaid such loans). Of the total amount borrowed, no more than $23,000 may consist of subsidized Stafford loan funds. If a borrower is ineligible for subsidized Stafford loan funds, he or she may borrow up to the $31,000 Stafford aggregate loan limit in unsubsidized Stafford loan funds. If the borrower has not reached the $31,000 limit, the borrower may be eligible for the Stafford annual loan limit applicable to his or her current grade level. To calculate the borrower's remaining

Stafford aggregate loan eligibility, subtract the subsidized and unsubsidized Stafford loan amounts the borrower has received from the combined Stafford aggregate loan limit of $31,000.
[HEA §428(b)(1)(B)(i); §428H(d)(3)(B); DCL GEN-08-08]

An independent undergraduate student borrower or a dependent student borrower whose parent is unable to obtain a PLUS loan (because the parent has adverse credit or other exceptional circumstances that are documented by the FAA) is eligible to borrow up to a combined subsidized and unsubsidized Stafford aggregate loan limit of $57,500 (including all Direct Stafford loans received or any portion of an outstanding Consolidation loan that fully repaid such loans). Of the total amount borrowed, no more than $23,000 may consist of subsidized Stafford loan funds. If a borrower is ineligible for subsidized Stafford loan funds, he or she may borrow up to the $57,500 Stafford aggregate loan limit in unsubsidized Stafford loan funds. If the borrower has not reached the $57,500 limit, the borrower may be eligible for the Stafford annual loan limit applicable to his or her current grade level. To calculate the borrower's remaining Stafford aggregate loan eligibility, subtract the subsidized and unsubsidized Stafford loan amounts the borrower has received from the combined Stafford aggregate loan limit of $57,500.
[HEA §428(b)(1)(B)(ii); HEA §428H(d)(4)(B); DCL GEN-97-3; DCL GEN-08-08]

#### Graduate and Professional Students

A graduate or professional student is eligible to borrow a combined subsidized and unsubsidized Stafford aggregate loan amount of up to $138,500 (including all SLS and Direct Stafford loans received or any portion of an outstanding Consolidation loan that fully repaid such loans). Subsidized Stafford loans may comprise no more than $65,500 of the total amount borrowed. If a student is ineligible for subsidized Stafford loan funds, the student may borrow the entire $138,500 Stafford aggregate loan limit in unsubsidized Stafford loan funds.

Exception: Increased unsubsidized Stafford aggregate loan limits are authorized for certain health profession students (see Subsection 6.11.D).

## 6.11.C
## PLUS Loans for Graduate and Professional Students

A graduate or professional student is eligible to borrow Grad PLUS loan funds not to exceed the cost of attendance (COA) minus the student's estimated financial assistance (EFA) for the loan period. There is no annual or aggregate loan limit for a Grad PLUS loan. A graduate or professional PLUS loan borrower must meet the student eligibility criteria set forth in Subsections 5.1.A and 5.1.B and the graduate or professional PLUS loan borrower eligibility criteria set forth in Subsection 5.1.C.
[§682.204(h); DCL GEN-92-21; 10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-107]

## 6.11.D
## Increased Unsubsidized Stafford Loan Limits for Health Profession Students

In some cases, the school may certify loan amounts that exceed the standard annual and aggregate loan limits. These instances are limited to loans for certain health profession students who may be eligible to borrow increased unsubsidized Stafford loan limits that exceed the annual and aggregate limits listed in Subsections 6.11.A and 6.11.B.
[DCL GEN-99-21; 10-11 FSA Handbook, Volume 3, Chapter 6, pp. 3-106 to 3-108]

#### School Eligibility

For loan periods beginning on or after May 1, 1999, schools offering eligible health profession programs are eligible to award the increased unsubsidized Stafford loan limits to students enrolled in those programs, regardless of the school's past participation in the HEAL Program. Foreign schools are not eligible to award the increased unsubsidized Stafford loan limits. See Volume 3 of the FSA Handbook for the most current list of eligible programs.

Eligible health profession programs include:

- Allopathic medicine programs accredited by the Liaison Committee on Medical Education.
- Osteopathic medicine programs accredited by the American Osteopathic Association, Bureau of Professional Education.

- Dentistry programs accredited by the American Dental Association, Commission on Dental Accreditation.
- Veterinary medicine programs accredited by the American Veterinary Medical Association, Council on Education.
- Optometry programs accredited by the American Optometric Association, Council on Optometric Education.
- Podiatric medicine programs accredited by the American Podiatric Medical Association, Council on Podiatric Medical Education.
- Pharmacy programs accredited by the American Council of Pharmaceutical Education.
- Public health programs accredited by the Council on Education for Public Health.
- Chiropractic medicine programs accredited by the Council on Chiropractic Education, Commission on Accreditation.
- Health administration graduate programs accredited by the Accrediting Commission on Education for Health Services Administration.
- Clinical psychology programs accredited by the American Psychological Association, Committee on Accreditation.
  [DCL GEN-99-21; 10-11 FSA Handbook, Volume 3, Chapter 6, pp. 3-106 to 3-108]

For loan periods beginning on or after May 1, 2005, schools offering the following health profession programs are eligible to award increased unsubsidized Stafford loan limits to students enrolled in these programs:

- Naturopathic Medicine programs that lead to a Doctor of Naturopathic Medicine (N.M.D.) Degree or a Doctor of Naturopathy (N.D.) Degree and are accredited by the Council on Naturopathic Medical Education (CNME).
  [DCL GEN-05-09]

### Student Eligibility

To be eligible for the increased unsubsidized Stafford loans exceeding standard annual loan limits, a health profession student must meet the following criteria:

- The student must be eligible for an unsubsidized Stafford loan.
- The student must be enrolled at least half time.
- The student must be enrolled in an eligible program at an eligible school, as defined above.
  [DCL GEN-98-18; DCL GEN-97-4; DCL GEN-96-14; 10-11 FSA Handbook, Volume 3, Chapter 6, pp. 3-106 to 3-108]

### Special Annual Unsubsidized Stafford Loan Limits

The increased annual unsubsidized Stafford loan limits for an eligible health profession student supplement the regular Stafford loan limits the student would be eligible to receive in the same loan period, and cannot exceed the lesser of the following:

- The student's cost of attendance (COA) less estimated financial assistance.
- The student's regular unsubsidized Stafford loan limit (see Subsection 6.11.A) plus the student's applicable HEAL loan maximum.
  [10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-108]

In general, the additional maximums are as follows:

- $12,500 for a 9-month academic year, not to exceed $16,667 for a 12-month academic year, for a student enrolled in one of the following programs:
  - Graduate in Public Health
  - Master's or Doctoral Degree in Health Administration
  - Doctor of Pharmacy
  - Doctor of Chiropractic
  - Doctoral Degree in Clinical Psychology
- $20,000 for a 9-month academic year, not to exceed $26,667 for a 12-month academic year, for a student enrolled in one of the following programs:
  - Doctor of Allopathic Medicine
  - Doctor of Osteopathic Medicine
  - Doctor of Dentistry

- Doctor of Veterinary Medicine
- Doctor of Optometry
- Doctor of Podiatric Medicine
- Doctor of Naturopathic Medicine
- Doctor of Naturopathy

[10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-108]

For an academic year that meets the requirements of a Title IV academic year (see Subsection 6.1.A) but is shorter than 9 months in length, the school is not required to prorate the loan but may instead certify the full 9-month limit if the student is otherwise eligible. For an academic year that is 10 or 11 months in length, the school must divide the applicable 9-month loan limit by 9 and multiply that amount by the number of months in the student's academic year.

Schools must follow applicable HEAL program restrictions when certifying increased unsubsidized Stafford loans, except that the HEAL program needs test is not required for increased unsubsidized Stafford loan limits.
[10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-107]

#### Special Stafford Aggregate Loan Limits

Graduate and professional health profession students who are eligible for increased unsubsidized Stafford loans are eligible to borrow a combined subsidized and unsubsidized Stafford aggregate loan amount of up to $224,000 (including all SLS and Direct Stafford loans received or any portion of an outstanding Consolidation loan that fully repaid such loans). Subsidized Stafford loans may comprise no more than $65,500 of this amount. If a student is ineligible for subsidized Stafford loan funds, the student may borrow the $224,000 aggregate loan limit in unsubsidized Stafford loan funds.
[DCL GEN-99-21; DCL GEN-99-7; DCL GEN-98-18; DCL GEN-97-14; DCL GEN-97-4; DCL GEN-96-14]

## 6.11.E
## Exceeding Loan Limits

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. See Subsections 6.11.A and 6.11.B for more information regarding Stafford loan limits.
[§682.204(h); §682.401(b); §682.603(e)]

A Stafford borrower is subject to the annual and aggregate loan limits that exist in the Higher Education Act of 1965, as amended, at the time the borrower received an inadvertent overaward. If a Stafford borrower inadvertently exceeds the Stafford annual or aggregate loan limit, the borrower will be ineligible for additional Title IV funds 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 Section 6.20.

- The borrower repays in full the excess Stafford loan amount.
  [§668.35(d)(1)]

- The borrower makes arrangements satisfactory to the holder of the loan to repay the excess Stafford loan amount. These arrangements may include having the borrower sign an agreement acknowledging the debt and affirming his or her intention to repay the excess amount as part of the normal repayment process. Consolidation of the loan(s) that exceeded the annual or aggregate loan limit (provided that the loan(s) is otherwise eligible for consolidation) is also considered to be a satisfactory repayment arrangement.
  [§668.35(d)(2); 10-11 FSA Handbook, Volume 3, Chapter 6, pp. 3-133 to 3-134 and Volume 5, Chapter 1, pp. 5-16 to 5-17]

A school must document how a student who has inadvertently exceeded a Stafford annual or aggregate loan limit has resolved the excess before the school may award the student additional Title IV aid. However, once the excess is resolved, the student does not necessarily regain eligibility to receive additional Stafford loan funds as the student is still subject to annual and aggregate loan limits. A school may certify additional Stafford loan funds only to the extent that the student borrower has reduced his or her outstanding Stafford loan debt to an amount that is less than the applicable annual or aggregate loan limit.
[10-11 FSA Handbook, Volume 5, Chapter 1, p. 5-17]

> Example: A dependent undergraduate student who inadvertently exceeded the $23,000 subsidized Stafford aggregate loan limit arranges to have a portion of his debt reallocated to unsubsidized Stafford funds, reducing his or her outstanding subsidized Stafford loan debt to the $23,000 limit. The school must not certify any additional subsidized Stafford loan funds for the student; however, if the dependent student has not exceeded the combined Stafford aggregate loan limit of $31,000, the school may certify unsubsidized Stafford loan funds, up to the $31,000 limit. For an independent undergraduate student in this same situation who did not exceed the combined Stafford aggregate loan limit of $57,500, the school may certify unsubsidized Stafford loan funds, up to the $57,500 limit.
> [10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-134]

During the academic year in which a student exceeds an annual loan limit, the school must not certify additional Stafford loan funds unless the student reduces his or her outstanding Stafford loan debt to an amount less than the applicable annual loan limit.

If a Stafford 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.

## 6.11.F Prorated Loan Limits

A school must calculate prorated, i.e., reduced, Stafford annual loan limits when the school knows in advance that an undergraduate Stafford loan borrower will be 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 (see Section 6.1 for information about defining an academic year). See Figure 6-4 for information about the proration calculation for a program of study of less than a full academic year.

- The program's duration is equal to or longer than the statutory minimum for an academic year, but the borrower is completing a final period of study in a period of enrollment that is shorter than an academic year. See Figure 6-4 for information about the proration calculation for a final period of study that is shorter than an academic year. The following concepts apply when determining whether a final period of study is shorter than an academic year:

  – In a credit-hour program that uses standard terms or nonstandard terms that are substantially equal *and* at least nine weeks of instructional time in length (SE9W), a final period of study is shorter than an academic year if it contains fewer terms than the number of terms in the program's academic year. For a program that uses a scheduled academic year (SAY), the number of terms in the school's academic year does not include a summer term that is designated as a header or trailer (see Subsection 6.1.B).

  – In a clock-hour program, a non-term-based credit-hour program, a credit-hour program that uses nonstandard terms that are *not* SE9W (i.e., the terms are not substantially equal, or each term is not at least nine weeks of instructional time in length), or a credit-hour program with a combination of standard terms and nonstandard terms that does not qualify to use an SAY, a final period of study is shorter than an academic year if it consists of fewer clock or credit hours than in the program's academic year.

- In any program, a school may establish an academic year that is greater than the statutory minimum in clock or credit hours or instructional weeks (see Section 6.1). For such a program, the school must use its academic year definition for the program—not the statutory minimum for an academic year—to determine whether a final period of study is shorter than an academic year.

[§682.204(a) and (d); 10-11 FSA Handbook, Volume 3, Chapter 6, pp. 3-122 to 3-125]

If a borrower who received a prorated loan amount because his or her final period of study was less than a full academic year changes the number of hours for which the borrower is enrolled, the school need not recalculate the amount of the loan. However, the following principles apply:

- If the borrower drops hours after the loan has been certified, the borrower must continue to be enrolled at least half time to be eligible for the loan.

- If the borrower increases hours after the loan has been certified so that the borrower is attending the full academic year, he or she may be eligible for additional loan funds. If the borrower requests and is eligible for an increased loan amount, the school may certify the increased loan amount without requiring the student to complete a new Federal Stafford Loan Master Promissory Note (Stafford MPN). For more information on increased loan amounts, see Section 6.20.
  [§682.603(h)(4); DCL GEN-98-25; DCL GEN-99-9]

A borrower enrolled in a self-paced program, either a clock-hour program or a non-term-based credit-hour program, may successfully complete the number of credit or clock hours in the program's academic year in fewer than the number of weeks of instructional time in the program's academic year. If the self-paced program is more than an academic year in length and the subsequent Stafford loan period will be an undergraduate borrower's final period of study, the school must prorate the Stafford annual loan limits. For example, a borrower is enrolled in a program of 1800 clock hours and 52 weeks of instructional time in which the academic year is defined as 900 clock hours and 26 weeks of instructional time. The borrower completes the 900 clock hours in the program's academic year upon completion of 22 weeks of instructional time. The borrower must complete an additional 4 weeks of instructional time for a total of 26 instructional weeks before he or she may receive another Stafford loan for the final period of study. (For more information about the frequency of Stafford annual loan limits, see Subsection 6.1.B.) Upon completion of 26 weeks of instructional time, the borrower has successfully completed 1040 clock hours. Since the borrower's final period of study consists of fewer clock hours (760) than in the program's academic year (900), the school must prorate the borrower's Stafford annual loan limits.
[10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-117]

## Prorated Stafford Annual Loan Limits — Figure 6-5

A school must prorate the Stafford annual loan limit when it has advanced knowledge that an undergraduate Stafford loan borrower will be enrolled in a program that meets either of the following conditions:

- The program is shorter than a full academic year in length (for more information about the minimum statutory requirements for an academic year, see Section 6.1).
- The program is one academic year or more in length, but the student is enrolled in a final period of study that is shorter than a full academic year.

The Stafford annual loan limit is not prorated for a student enrolled in a graduate or professional program, or for an undergraduate student enrolled in preparatory coursework or coursework necessary for teacher certification.

| | Final Period of Study Shorter Than an Academic Year[1] | |
|---|---|---|
| **Program Shorter Than an Academic Year** | **Credit-Hour Program with Standard Terms or Nonstandard Terms That Are Substantially Equal and Have at Least Nine Weeks of Instructional Time (SE9W)** | **Credit-Hour Program with Nonstandard Terms That Are Not SE9W, Non-Term-Based Credit-Hour and Clock-Hour Program** |
| Multiply the applicable Stafford annual loan limit(s) by the lesser of the following ratios[2]:<br><br>Number of semester, trimester, quarter, or clock hours enrolled in the program<br>÷<br>Number of semester, trimester, quarter, or clock hours in the academic year<br><br>**or**<br><br>Number of instructional weeks enrolled in the program<br>÷<br>Number of instructional weeks in the academic year[3] | A final period of study is considered shorter than an academic year if the final period consists of fewer terms than the program's defined academic year. (For a program that uses a Scheduled Academic Year (SAY), the number of terms in the program's academic year does not include a summer term designated as a header or trailer.)<br><br>Multiply the applicable Stafford annual loan limit(s) by the following ratio[2]:<br><br>Number of semester, trimester, quarter, or clock hours enrolled in the final period of the program<br>÷<br>Number of semester, trimester, quarter, or clock hours in the academic year | A final period of study is considered shorter than an academic year if the final period consists of fewer clock or credit hours than the program's defined academic year.<br><br>Multiply the applicable Stafford annual loan limit(s) by the following ratio[2]:<br><br>Number of semester, trimester, quarter, or clock hours enrolled in the final period of the program<br>÷<br>Number of semester, trimester, quarter, or clock hours in the academic year |

[1] A school may establish an academic year for a program that is greater than the statutory minimum in clock hours or weeks of instructional time. For such a program, the school must use its academic year definition for the program—not the statutory minimum for an academic year—to determine whether the program or a final period of study is shorter than an academic year.

[2] A school may either use a fraction or convert the fraction to a decimal and multiply the Stafford annual loan limit by the fraction or decimal, respectively. A school must use the method it chooses (i.e., either a fraction or a decimal) consistently for calculating a prorated Stafford annual loan limit.

[3] For a Credit-Hour Program, have at least 30 weeks of instructional time or for a clock-hour program, at least 26 weeks of instructional time.

See Subsection 6.11.F for additional information.
[§682.204(a) and (d)]

### When Proration of Stafford Annual Loan Limits Is Not Applicable

In some instances, a school is not required to prorate the Stafford annual loan limits and in other instances, the school is not permitted to prorate the Stafford annual loan limits, as follows:

- A school is not permitted to prorate the Stafford annual loan limits for a graduate or professional Stafford loan borrower.
  [10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-122]

- A school is not permitted to prorate the Stafford annual loan limits for any undergraduate Stafford loan borrower who enrolls:

  - In coursework necessary for a professional credential or certification from a state if that credential or certification is required for employment as a teacher in an elementary or secondary school (see Subsection 6.11.A).
    [10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-122]

  - In preparatory coursework necessary for admission into either an undergraduate or a graduate program of study (see Subsection 6.11.A).
    [10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-122]

  - At least half time but less than full time.
    [10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-122]

  - For a period of less than a full academic year that is not a final period of study.
    [10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-122]

  - In an undergraduate credit-hour program that uses standard terms or nonstandard terms that are SE9W during a final period of study that contains the number of terms in the program's academic year and includes a term(s) in which the borrower is enrolled less than half time. For example, an undergraduate borrower is enrolled in a quarter term-based, credit-hour program that uses an SAY of three quarter terms—fall, winter, and spring. For the final period of study, the borrower enrolls full time for fall, less than half time for winter, and full time for spring. The school does not prorate the borrower's Stafford annual loan limits because the final period of study equals the number of terms in the program's academic year. However, the borrower is ineligible to receive, or receive the benefit of, a loan for the term in which he or she is enrolled less than half time.
    [10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-123]

- A school is permitted, but not required, to retroactively prorate the Stafford annual loan limits for an undergraduate borrower who originally enrolls for a final period of study that is a full academic year in length and who completes the program early in less than a full academic year.
  [10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-122]

A borrower enrolled in a self-paced program, either a clock-hour program or a non-term-based credit-hour program, may successfully complete the number of credit or clock hours in the program's academic year in fewer than the number of weeks of instructional time in the program's academic year. If the self-paced program is an undergraduate program that is *exactly* one academic year in length, a school is not required to prorate the Stafford annual loan limits for the occasional borrower who successfully completes the program in fewer weeks of instructional time than the average student. For example, a borrower enrolls in a program that is exactly one academic year in length, e.g., 900 clock hours and 26 weeks of instructional time. However, the borrower successfully completes the program's 900 clock hours in 22 weeks of instructional time. If the average student enrolled in such a program successfully completes the program in 26 weeks, the school is not required to prorate the Stafford annual loan limits for the occasional borrower who successfully completes the program in less than 26 weeks.
[10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-117]

## 6.11.G
## Effects of a Consolidation Loan on New Stafford Loan Eligibility

When certifying a new Stafford loan, the financial aid administrator (FAA) must consider the effects, if any, that a student's Consolidation loan will have on his or her eligibility for the new loan. Portions of a Consolidation loan that are attributed to subsidized and unsubsidized Stafford loans must be included when calculating the student's aggregate loan balance. The FAA should use the National Student Loan Data System (NSLDS) or loan records provided by the student to determine the portion of the Consolidation loan that should be applied to the subsidized Stafford loan limit and the portion that should be applied to the unsubsidized Stafford loan limit. [§682.204(j)]

The NSLDS identifies the underlying loans of the Consolidation loan and uses those loan amounts to allocate the current outstanding principal balance between subsidized Stafford, unsubsidized Stafford, and combined aggregate Stafford amounts, excluding Perkins and PLUS loans from the aggregate computations. The NSLDS then subtracts the total of the calculated subsidized and unsubsidized outstanding balance amounts from the actual outstanding balance of the Consolidation loan. Any remaining balance is considered to be "unallocated." Unallocated amounts occur when, with the information that has been provided by data providers, the NSLDS is unable to account for the full amount of the outstanding balance of the Consolidation loan. The NSLDS does not include unallocated amounts when calculating aggregate combined subsidized and unsubsidized outstanding principal balances. However, the NSLDS will report aggregate subsidized amounts, unsubsidized amounts, combined subsidized and unsubsidized amounts, and unallocated amounts on Web pages and on Institutional Student Information Reports (ISIRs).

Unallocated amounts may represent any of the following:

- Capitalized interest that is included in the Consolidation loan. Capitalized interest does not count toward a borrower's aggregate limits.

- An underlying Health and Human Services (HHS) loan that is included in the Consolidation loan. HHS loans are not reported to the NSLDS and are not, therefore, automatically excluded from the aggregate calculations.

- An underlying loan that is from the borrower's spouse that is included in the Consolidation, in the case of a joint Consolidation loan.

- An underlying FFELP or FDLP loan that has not yet been added to the NSLDS because of an edit condition that occurred when the information was sent to the NSLDS, but that is included in the Consolidation loan.

A school is responsible for the financial aid history information that is available from the NSLDS at the time it certifies a loan for a student. The FAA is not required to investigate whether an unallocated amount of a Consolidation loan might impact a student's eligibility for additional Stafford loan funds unless the FAA has information that conflicts with the data reported in the NSLDS. The FAA must resolve any conflicting information prior to certifying the eligible loan amount and, if it has received conflicting financial aid information between the date the loan was certified and the date the loan funds are delivered, the school must resolve any conflict prior to delivering the loan funds. The school must include the result of that resolution in the school's certification of the student's eligible loan amount. If the school receives written documentation that confirms that a student is eligible for additional aid, the school may deliver the aid without waiting for the NSLDS to be updated. [§668.16(f); DCL GEN-96-13, Q&A #13 and #14; DCL GEN-03-12, Q&A #20; *NSLDS Newsletter* Number 11, February 2006]

## 6.12
## Determining the Eligible Loan Amount

The maximum loan amount a school may certify 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 (COA) minus any estimated financial assistance (EFA) (and, for a subsidized Stafford loan, minus the expected family contribution [EFC]) or a reduced eligibility amount determined by the school. [§682.603(e)(2)]

- The applicable annual loan limit for the loan type, program length, and grade level. [§682.603(e)(1)]

- The remaining eligibility under the applicable aggregate loan limit. [§682.603(e)(1)]

- The loan amount requested by the borrower. [§682.206(c)(2)]

A lender may, at its discretion, approve a loan amount that is less than the amount for which the borrower might otherwise qualify.

## 6.13 Determining the Loan Amount at Schools with 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 6.3.D). 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 for more information on the clock-hour/credit-hour conversion requirement for certain schools.
[§668.8(k) and (l); §668.9; 09-10 FSA Handbook, Volume 2, Chapter 2, pp. 2-17 to 2-18]

## 6.14 Determining a Student's Eligibility for Interest Subsidy on Stafford Loans

Before certifying a Stafford loan, a school must determine the student's eligibility for interest subsidy on that loan. [§682.603(b)(2)]

## 6.14.A 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 generally responsible for paying the interest that accrues during all other periods. However, if a borrower qualifies for income-based repayment (IBR) and the monthly payment amount during the period of the borrower's partial financial hardship (PFH) is not sufficient to pay the interest accruing on a subsidized Stafford loan, the Department pays the accrued interest that exceeds the scheduled monthly PFH payment during a consecutive 3-year period beginning on the established repayment period start date when each loan enters IBR. This 3-year period excludes any period during which the borrower receives an economic hardship deferment.
[§682.300(b)(1)]

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

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.
[§682.301(a)(1); §685.200(a)(2)(i)]

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. [§682.301(a)(2); §685.200(a)(2)(ii)]

## 6.14.B
## 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 (COA). The student is responsible for paying interest that accrues on his or her unsubsidized Stafford loan during all periods.
[HEA §428(H)(b)]

## 6.14.C
## 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 COA 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.

## 6.15
## 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 parent PLUS loan—and the maximum amount that may be borrowed (see Section 6.11). 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(e)]

A school must certify the borrower's loan eligibility by the end of the loan period or the date on which the student ceases to be enrolled at least half time, whichever is earlier. If the school does not certify the loan by the earlier of these two dates, the loan cannot be disbursed. See Subsection 7.7.G for complete information regarding late disbursement.
[§668.164(g)(2)(ii)(A); §682.207(f)]

Before a school may certify a new loan for a borrower whose prior Title IV loan(s) is conditionally discharged or in a post-discharge monitoring period based on a determination that the borrower is totally and permanently disabled, the school must:

- Confirm that the borrower has initiated the process to return the loan(s) to repayment.
- Determine whether the status of the loan (default or non-default) will trigger additional requirements before it certifies a new loan for the borrower.

If the loan(s) was in default prior to being conditionally discharged or placed in a post-discharge monitoring period, the school may be required to document that the borrower has either made satisfactory repayment arrangements with the loan holder in order to reinstate Title IV eligibility or has rehabilitated the defaulted loan(s) (see Subsection 5.2.E). See Subsection 5.5.A for more information regarding borrower eligibility for a new loan when the borrower's prior loan(s) is conditionally discharged or placed in a post-discharge monitoring period.
[§682.201(a)(5)]

A school may not refuse to certify or delay the certification of a Stafford or PLUS loan based on the borrower's selection of a particular lender or guarantor. Also, a school may not assign a first-time borrower's loan to a particular lender through the award packaging process or other methods. See Subsection 6.15.E for information regarding when the school is permitted to refuse to certify a FFELP loan or to reduce the loan amount.
[§682.603(f)(2) and (4)]

A school may not assess a Stafford or PLUS loan borrower, or the dependent student in the case of a parent PLUS loan, a fee for the completion or certification of any FFELP form or for providing any information necessary to receive a FFELP loan or any benefits associated with a FFELP loan. Examples include loan certifications, promissory notes, enrollment verification requests, or deferment forms.
[§682.603(i)]

#### 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 the Federal Pell Grant Program, the FDLP, or the 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.
[§668.167(d)]

A school participating solely in the FFELP may be required to seek the Department's approval to certify loan eligibility and deliver Stafford or PLUS loan funds if the Department determines a need to monitor the school's participation.
[§668.167(d)(1)(i) and (ii)]

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.

## 6.15.A Preventing Overawards

A school must develop procedures to ensure that it does not certify and each Stafford borrower does not receive a loan exceeding the applicable annual and aggregate loan limits (see Section 6.11). In addition, the school must ensure that the total aid received for a loan period does not exceed the student's cost of attendance (COA). 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 Section 8.6.
[§668.164(d)(1); §682.603(e)]

## 6.15.B Stafford Loan Certification

A school may certify a Stafford loan only if the student borrower meets the eligibility criteria outlined in Subsections 5.1.A and 5.1.B, and Section 5.12.

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 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.
[10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-147]

The school must document in the student's file the reason it did not certify a Stafford loan.
[HEA §428(b)(1)(A) and (B); §682.201(a)(1) and (2)]

#### Use of Professional Judgment for a Student Whose Parent(s) Ceases Financial Support and Refuses to Complete FAFSA

A financial aid administrator (FAA) is permitted to use his or her professional judgment to certify an unsubsidized Stafford loan for a dependent undergraduate student if the student's parent(s) has ended financial support and refuses to complete the parental section of the FAFSA. In this situation, providing financial support includes not only payment of educational costs, but also providing the student other cash or non-cash support, such as room and/or board. (Note that this authority does not permit the FAA to perform a dependency override for such a student. For information on dependency overrides, see Section 6.8.)

If the FAA exercises this authority, the dependent student is eligible to receive only an unsubsidized Stafford loan and may not receive any other Title IV aid. The maximum annual unsubsidized Stafford loan amount that a dependent student may receive under this authority is the "base" limit for a dependent student applicable to the student's grade level plus the additional unsubsidized amount of $2,000 (see Figure 6-4).

Also, a student's parent(s) who has ended financial support is not eligible to apply for a PLUS loan on the student's behalf. However, if the student's parents are separated or divorced, the parent whose financial information would not have been included on the FAFSA may apply for a PLUS loan on the student's behalf. If this parent is subsequently unable to obtain a PLUS loan, the student is not eligible for

the additional unsubsidized Stafford loan funds typically available to dependent students whose parents are unable to obtain a PLUS loan.

The FAA must verify that the parent(s) has ceased financial support and refuses to complete the parental section of the FAFSA. The student is not permitted to self-certify this information. The FAA must obtain a signed and dated statement from one of the student's parents specifically stating each of the following:

- The parent(s) has stopped providing financial support to the student. The statement must include the date when the financial support stopped.
- The parent(s) will not provide financial support in the future.
- The parent(s) refuses to complete the parental section of the FAFSA.

If the student's parent(s) will not provide the required verification statement, the FAA must obtain alternative documentation from a third party (e.g., a teacher, counselor, clergy member, or court) prior to certifying the unsubsidized Stafford loan. The alternative documentation must describe the student's relationship with his or her parents. In addition, the FAA may, but is not required to, determine how the student intends to support himself or herself financially without parental support.
[HEA §479A(a); DCL GEN-08-12/FP-08-10]

## 6.15.C PLUS Loan Certification

PLUS loans are available both to parent borrowers who wish to borrow on behalf of their dependent undergraduate students, and to graduate and professional student borrowers. A school that participates in the Federal PLUS Loan Program and offers both undergraduate and graduate or professional programs must offer PLUS loans both to parents and to the school's graduate and professional students. Schools are not permitted to exclude either category of borrower from participation in the Federal PLUS Loan Program.
[DCL FP-06-05]

### Parent Borrowers

A school may certify a parent PLUS loan only if both the parent borrower and the student for whom the loan is being obtained meet the eligibility criteria outlined in Subsection 5.1.A. In addition, the student must meet the eligibility criteria outlined in Subsection 5.1.B and Section 5.12 and the parent borrower must meet the eligibility criteria outlined in Subsection 5.1.C.

A school determines a parent borrower's maximum eligibility for a parent PLUS loan by subtracting from the cost of attendance (COA) the student's estimated financial assistance (EFA) for the loan period. There is no annual or aggregate loan limit for a parent PLUS loan.
[§682.204(h); DCL GEN-92-21; 10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-107]

A school is not required to perform need analysis to determine a parent's eligibility for a PLUS loan. Likewise, a school is not required to determine a student's eligibility for a Pell grant or a subsidized or unsubsidized Stafford loan prior to certifying a parent PLUS loan or disbursing parent PLUS loan funds. A parent may choose to borrow the entire amount of the COA minus the EFA for an eligible dependent student regardless of whether the student is eligible to receive other Title IV aid—including a Pell grant, a subsidized Stafford loan, or an unsubsidized Stafford loan. However, if the student is seeking such aid, the school must include that aid in the EFA when determining the parent's PLUS loan eligibility.
[10-11 FSA Handbook, Application and Verification Guide, Chapter 1, p. AVG-5, Volume 1, Chapter 7, p. 1-76, and Volume 3, Chapter 6, p. 3-107]

### Graduate and Professional Student Borrowers

A school may certify a Grad PLUS loan for a graduate or professional student only if the student meets the eligibility criteria for both a student and a PLUS loan borrower. These eligibility criteria are outlined in Subsections 5.1.A, 5.1.B, and 5.1.C, and Section 5.12.

A school determines a student borrower's maximum eligibility for a Grad PLUS loan by subtracting from the cost of attendance (COA) the student's estimated financial assistance (EFA) for the loan period. There is no annual or aggregate loan limit for a Grad PLUS loan.
[§682.204(h); DCL GEN-92-21; 09-10 FSA Handbook, Volume 3, Chapter 6, p. 3-101]

Before applying for a Grad PLUS loan, a student is required to submit a completed Free Application for Federal Student Aid (FAFSA). Before certifying a Grad PLUS loan, the school must determine the student's maximum eligibility for subsidized and unsubsidized Stafford loan funds in the program (FFELP or Direct) in which the school is participating for Stafford loan purposes. If the student has not requested the maximum Stafford loan amount for which he or she is eligible, the school must notify the student of his or her maximum Stafford loan eligibility, and provide the student the following information on each loan type (Stafford and PLUS):

- The maximum interest rate.
- The periods during which interest that accrues must be paid by the borrower.
- The point at which the loan enters repayment.

The school must then provide the student with an opportunity to request the maximum Stafford loan funds for which he or she is eligible. However, the student may decline the Stafford loan funds and the school may not require the student to accept Stafford loan funds as a condition of applying for a Grad PLUS loan.
[§682.201(b)(3); §682.603(d); DCL GEN-06-02/FP-06-01; DCL FP-06-05]

## 6.15.D Additional Unsubsidized Stafford Loan Certification for a Dependent Student

If a dependent student's parent is unable to obtain a PLUS loan at a school that participates in the Federal PLUS Loan Program due to exceptional circumstances documented by the financial aid administrator (FAA), and the student's family is otherwise unable to provide the expected family contribution (EFC), the dependent student is eligible for additional unsubsidized Stafford loan funds in an amount that is the lesser of:

- The additional unsubsidized Stafford annual loan limit available to an independent student. See Figure 6-4.
- The student's cost of attendance (COA) for the loan period, minus the student's estimated financial assistance (EFA).

Exceptional circumstances may include, but are not limited to:

- The dependent student's parent has an adverse credit history.
[§682.201(a)(3)]
- The dependent student's parent is incarcerated.
[§682.201(a)(3)]
- The whereabouts of the dependent student's parent are unknown.
[§682.201(a)(3)]
- The dependent student's family income is limited to public assistance or disability benefits.
[§682.201(a)(3)]
- The dependent student's parent is prohibited from borrowing a PLUS loan because he or she is not a U.S. citizen or eligible noncitizen. See Subsection 5.2.A for citizenship and eligible noncitizenship criteria.
[DCL GEN-05-16, Q&A 5]
- The dependent student's parent files a bankruptcy petition and provides the school with an official letter from the bankruptcy court confirming that the parent has filed for bankruptcy and is prohibited from incurring additional debt.
[DCL GEN-05-16, Q&A 6]
- The dependent student's parent is prohibited from borrowing a PLUS loan because he or she is in default on a Title IV loan.
[§682.201(c)(1)(iv)]
- The dependent student's school has evidence that the student's parent has been denied a PLUS loan by a lender due to the parent's existing debt burden, income-to-debt ratio, likely inability to repay, or other credit standards or factors the lender has adopted.
[10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-109]

The school is not permitted to deny the additional unsubsidized Stafford loan funds to an otherwise eligible student unless such denial is based on a permissible reason and the school provides the reason for its action to the borrower in writing. For more information, see Subsection 6.15.E.
[§682.603(f)(3)]

A school may not certify additional unsubsidized Stafford loan funds for a dependent student based on the school's decision not to participate in the Federal PLUS Loan Program.

A parent's unwillingness or refusal to take out a PLUS loan is not considered an exceptional circumstance. Only one parent needs to 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 a parent is approved for a PLUS loan, the student is not eligible for the additional unsubsidized Stafford loan funds, even if another parent has been unable to obtain a PLUS loan.
[§682.201(a)(3); §682.204(k); 10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-105]

If, *after* the school certifies additional unsubsidized Stafford loan funds for the student based on one parent's inability to obtain a PLUS loan, a parent is subsequently determined to be eligible for a PLUS loan, 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 returning 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 EFA used in determining eligibility for the PLUS loan.
[DCL 96-L-186/96-G-287, Q&A #3]

If a parent of a dependent student is initially determined to be eligible for a PLUS loan but subsequently is denied additional PLUS loan funds for the same loan period, the school may choose to certify additional unsubsidized Stafford loan funding for the student, not to exceed the maximum additional unsubsidized loan amounts (see Subsection 6.11.A). Any eligible PLUS loan proceeds delivered or scheduled for future delivery during the loan period must be included in the EFA used in determining eligibility for the additional unsubsidized Stafford loan. The school need not recover or return PLUS loan funds for which the parent was previously determined eligible and that have been released to the parent or student before the parent was determined ineligible for additional funding.
[DCL 96-L-186/96-G-287, Q&A #3]

If a school certifies a PLUS loan for an eligible parent and the parent dies during the loan period, the parent's death creates sufficient "exceptional circumstances" to permit the school to certify additional unsubsidized Stafford loan funds for the student for the current academic year, not to exceed the student's additional unsubsidized Stafford loan limit (see Figure 6-4). Any eligible PLUS loan proceeds delivered prior to the date of the parent borrower's death must be included in the EFA used in determining the student's eligibility for the additional unsubsidized Stafford loan. The school must return to the lender any PLUS loan disbursement that was delivered after the date of the parent borrower's death.

## 6.15.E Refusing to Certify a Loan 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(f)(4); DCL GEN-95-40, Q&A #1]

A school may not establish any one of the following general policies:

- Limiting the number of times a student who is making satisfactory academic progress may borrow up to the maximum Stafford annual loan limit at any one grade level.
  [10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-121]

- Prorating the Stafford annual loan limit based on a student's enrollment status, such as when the student is enrolled less than full time, or is enrolled for less than a full academic year that is not a final period of study. [10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-122]

- Certifying a Stafford loan only for the amount needed to cover school charges. [10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-103]

- Limiting unsubsidized Stafford borrowing by independent students. [10-11 FSA Handbook, Volume 3, Chapter 6, p. 3-103]

## 6.16 Applying for Federal Stafford and PLUS Loans

There are some important distinctions between the processes for obtaining Stafford and PLUS loans.

### Federal Stafford Loans

The student borrower applies for a Stafford loan by submitting a completed Free Application for Federal Student Aid (FAFSA) and obtains one or more Stafford loans by signing a Federal Stafford Loan Master Promissory Note (Stafford MPN). A school may not require the student to complete any additional paper or electronic forms to obtain a Stafford loan but the school may require additional paper or electronic forms for other reasons (e.g., to apply for institutional aid or as part of its entrance counseling procedures).

The borrower must sign a Stafford MPN before loan funds can be disbursed by the lender and delivered by the school. The Stafford loan borrower may obtain a Stafford MPN from the school, the lender, or the guarantor, depending on the school's and lender's origination process. After completing the Stafford MPN, the borrower submits the MPN to the school, the lender, or the guarantor, depending on the process established by the school. [DCL GEN-02-07]

The financial aid administrator (FAA) determines the borrower's eligibility for a Stafford loan based on school records, information provided by the borrower on the FAFSA, and other information the FAA receives or accesses from other sources such as the National Student Loan Data System (NSLDS) and the Institutional Student Information Record (ISIR). If the FAA determines that the student is eligible for a Stafford loan, the school certifies eligibility for the loan. (See Section 6.15 for information regarding loan certification.) The school submits the certification information to the guarantor, or the lender selected by the borrower, depending on the loan processing options established at the school.

### Federal PLUS Loans

A parent or graduate or professional student borrower applies for a PLUS loan by completing a Federal PLUS Loan Application and Master Promissory Note (PLUS MPN).

*Information Applicable to Parent PLUS Loan Borrowers*

The PLUS MPN may be used by a parent borrower to obtain one or more PLUS loans for a dependent student. A parent borrower must complete a separate PLUS MPN for each dependent student for whom he or she wishes to borrow. The school may require a family seeking only a parent PLUS loan to submit a completed FAFSA, or it may establish the parent borrower's eligibility for a PLUS loan via some alternate process.

The parent borrower completes the required sections of the PLUS MPN and submits it to the school, the lender, or the guarantor, depending on the process established by the school. The FAA certifies the parent's and student's eligibility for the loan according to federal regulations, guarantor policies, and the school's published standards.

*Information Applicable to Graduate and Professional Student PLUS Loan Borrowers*

Before applying for a Grad PLUS loan, a student is required to submit a completed FAFSA and the school is required to determine the student's maximum eligibility for subsidized and unsubsidized Stafford loan funds. However, the student may decline the Stafford loan funds and the school may not require the student to accept Stafford loan funds as a condition of applying for a Grad PLUS loan. The PLUS MPN may be used by a graduate or professional student borrower to obtain one or more PLUS loans. [DCL GEN-06-02/FP-06-01]

The graduate or professional student borrower completes both the student and parent sections of the PLUS MPN with information about the student and submits it to the school, the lender, or the guarantor, depending on the process established by the school. The FAA certifies the student's eligibility for the loan according to federal regulations, guarantor policies, and the school's published standards. [DCL FP-06-05]

*Information Applicable to all PLUS Loan Borrowers*

Before each PLUS loan is disbursed, the borrower must indicate the amount he or she wishes to borrow (the requested loan amount). This amount may be obtained by the school, the lender, or the guarantor, depending on the process agreed to by the parties. If the lender determines that the borrower has an adverse credit history and an endorser is used, a separate Endorser Addendum is required for each PLUS loan. When an endorser is used, the PLUS MPN becomes a "single-loan" promissory note because the endorser is liable only for the specific loan that he or she agreed to endorse. Any increase in the requested loan amount by the borrower must be approved by the endorser and requires a new PLUS MPN and Endorser Addendum.

> EXAMPLE: Based on adverse credit, a PLUS loan applicant is denied a loan for the academic year. The loan applicant obtains an endorser and the PLUS application is approved based on the endorser's lack of adverse credit. The PLUS loan borrower then requests an increase in the loan amount for the same academic year. Since a PLUS MPN with an Endorser Addendum is a "single-loan" promissory note, the PLUS loan borrower must sign a new MPN and obtain an endorser without adverse credit for the additional loan funds or for any subsequent PLUS loan requested during a period in which the PLUS loan borrower has adverse credit.

[DCL GEN-03-03; DCL FP-06-05]

**Processes Applicable to Both the Stafford and PLUS MPN**

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 MPN, the borrower certifies that he or she has read the information on the note, understands the terms and conditions of the loan, and promises to repay the loan.

Both the Stafford and the PLUS MPN have a multi-year feature that permits a borrower to sign one promissory note for multiple loans. All schools located in the United States, unless notified otherwise by the Department, are authorized to offer borrowers the multi-year feature of the MPN. Schools located outside of the United States, unless specifically authorized by the Department to offer the multi-year feature, must use a separate MPN for each new academic year.
[DCL GEN-03-03]

The Department will provide program participants with information regarding changes to a school's eligibility for the multi-year feature of the MPN. Lenders may rely upon information provided by the Department to ascertain whether schools are authorized to use the multi-year feature.

A borrower must complete a new MPN for each new academic year when attending a school at which any of the following conditions applies:

- It is a foreign school not authorized by the Department to use the multi-year feature.
- The school has received notice of restricted multi-year use from the Department.
- The school has elected not to use the multi-year feature.
  [DCL GEN-02-07]

In addition, a new MPN is required if any of the following conditions applies:

- The lender's ability to make additional loans under the borrower's MPN has been revoked.
- The school or lender requires a new MPN.
- The borrower requests a new MPN.
- The guarantor requires a new MPN in the event of an invalid lender code.
- The prior MPN has expired.
- The borrower changes to a different lender.
- A third party with power of attorney signed the MPN on behalf of the borrower.
- The parent PLUS loan borrower is requesting funds for a different dependent student.
- The PLUS borrower is required to obtain an endorser without adverse credit.
- The PLUS borrower requests an increased loan amount on a loan for which he or she was required to obtain an endorser.

The lender must verify that each 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 7.2.A for information regarding lender responsibilities under an MPN).
[HEA §432(m)(1)(C) and (D); §682.102(a); DCL GEN-98-25; DCL GEN-99-9; DCL GEN-02-10; DCL GEN-03-03]

#### Power of Attorney

A borrower may grant power of attorney to a third party to sign the MPN on his or her behalf. An MPN signed by a third party with power of attorney for the borrower may be used only for one loan. If the MPN is signed by a third party with power of attorney for the borrower, the school must obtain a separate written authorization from the borrower to credit loan funds to the student's school account. The school must pay any credit balance to the student or parent borrower, as applicable, using a check or other instrument that requires the borrower's endorsement.

If the borrower submits his or her MPN through the school, the school must retain a copy of the original power of attorney. Either the school or the individual with power of attorney must provide a copy of the power of attorney document to the lender—a photocopy or fax of the document is acceptable. See Section 7.7 for additional information about disbursing a loan.

## 6.17 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)(C); HEA §428H(b)]

A school must retain a copy of any Master 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 MPN if the school receives the borrower's copy. For more information on school recordkeeping requirements, see Section 4.5.
[§682.610]

## 6.18 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 Federal Stafford Loan Master Promissory Note (Stafford MPN), or the Federal PLUS Loan Application and Master Promissory Note (PLUS MPN) must be completed electronically, in ink, or typed. If completed in pencil, the borrower must complete a new MPN.

- A valid Social Security number (SSN) must be provided by or for each applicant—and for each student for whom a PLUS MPN is completed. If the item is blank or invalid, the applicant or the dependent student, if applicable, 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 U.S. addresses are required.

- The borrower must sign and date the MPN. The lender may use the receipt date as the signature date if the borrower did not provide a date on the MPN, or if the date is erroneous.

## 6.19
## 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). 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 discrepancy cannot be reconciled, the guarantor may deny the loan guarantee. Typically, the borrower, school, and lender are all notified of a denial and how to appeal the decision, if an appeal process exists.

## 6.20
## 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 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. 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 7.7 and 8.7. 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 loan certification 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 LaRS report 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.

## 6.21
## The NCHELP FFELP CommonLine Network

The NCHELP FFELP CommonLine Network standardizes electronic loan certification formats, edits, response files, and error messages. Electronic data transmission in the CommonLine format is accepted by all guarantors.

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 loan certification 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

The typical steps in the CommonLine loan-origination process are as follows:

*Step 1:*
A school uses its own school-based software to enter loan data and school certification data in a common format and transmits the data using a form of electronic data exchange such as the Internet or File Transfer Protocol (FTP) to participating guarantors or service providers. Only one transmission for all loan data is necessary; the software will sort the data by guarantor, lender, or servicer and electronically send separate files to the appropriate organization.

*Step 2:*
The guarantor or service provider "picks up" the loan data and school certification data and performs normal loan processing functions. These processing functions may include guaranteeing the loan, printing a promissory note, reprinting requests, canceling a loan request, or making corrections. When processing is completed, the guarantor or service provider sorts the CommonLine response records by school, batches them, and transmits the batched records to the school.

*Step 3:*
The school uses its school-based software to retrieve the loan processing results; again, only one transmission is needed. The school completes loan processing after receiving a response file.

Information on CommonLine is available from any FFELP guarantor or from:

National Council of Higher Education Loan Programs, Inc. (NCHELP)
1100 Connecticut Avenue NW
12th Floor
Washington, DC 20036

Phone: (202) 822-2106
Website: www.nchelp.org

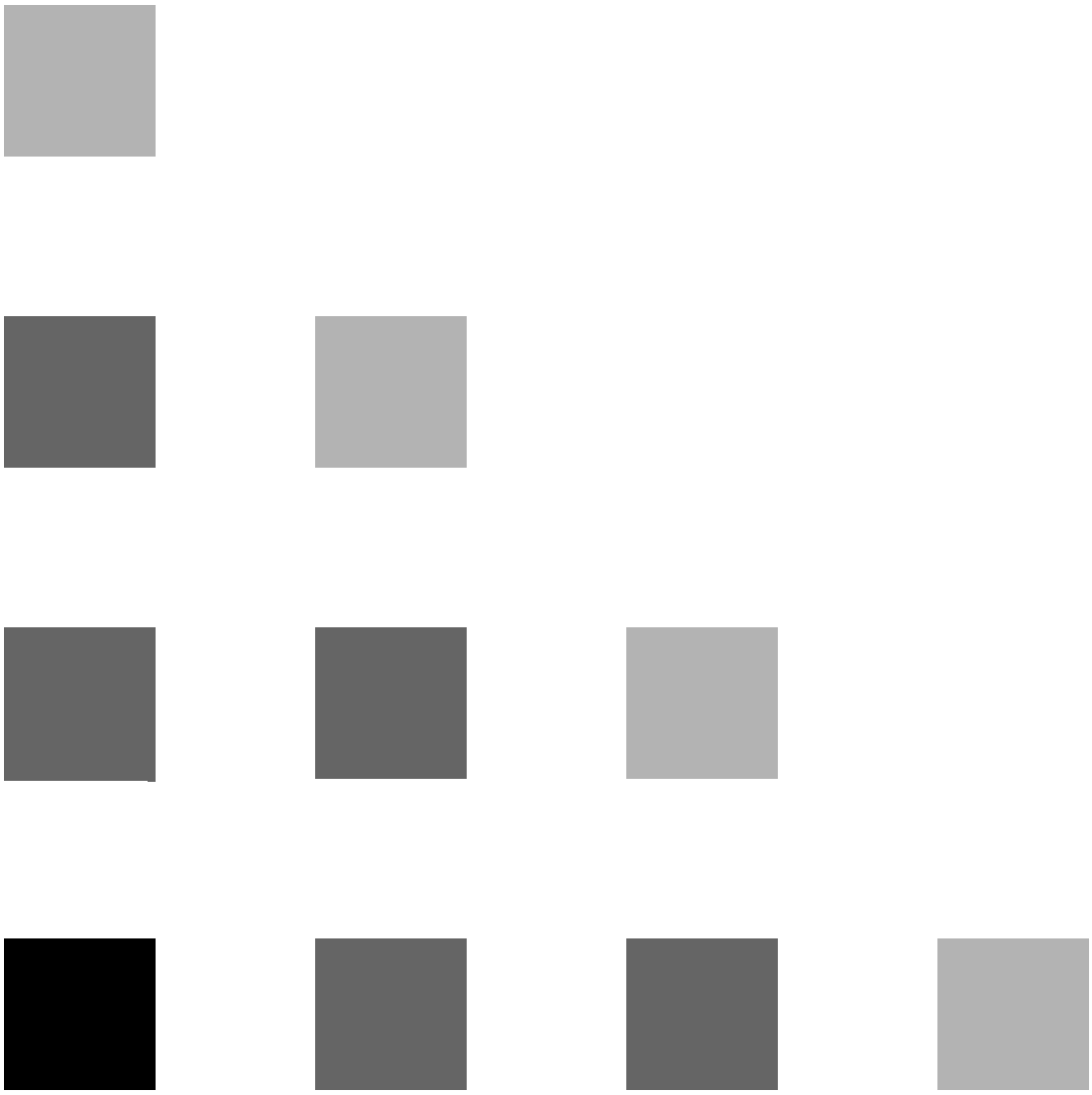
This page intentionally left blank.

# Tab Locator Page

## Remove this page and replace with tab divider.

# Tab Locator Page

## Remove this page and replace with tab divider.



# 7 Loan Origination


| | | |
|---|---|---|
| 7.1 | Reviewing the Loan Request | 1 |
| 7.1.A | General Determinations | 1 |
| 7.1.B | Credit Standards and Determining Adverse Credit | 1 |
| 7.1.C | Effect of Bankruptcy on the Lender's Determination of Adverse Credit | 2 |
| 7.2 | Reviewing the Promissory Note | 2 |
| 7.2.A | Lender Responsibilities under a Master Promissory Note | 3 |
| 7.2.B | Transfer Students and Master Promissory Notes | 4 |
| 7.3 | Processing the Loan Request | 4 |
| 7.4 | Establishing Stafford Loan Interest Rates | 5 |
| 7.4.A | Current Stafford Interest Rates | 5 |
| 7.4.B | Reduced Stafford Interest Rates | 5 |
| 7.4.C | Previous Stafford Interest Rates | 6 |
| 7.4.D | Resolving Interest Rate Discrepancies on Stafford Loans | 6 |
| 7.5 | Establishing PLUS Loan and SLS Loan Interest Rates | 8 |
| 7.5.A | Current PLUS Interest Rate | 8 |
| 7.5.B | Reduced PLUS Interest Rates | 8 |
| 7.5.C | Previous PLUS and SLS Interest Rates | 9 |
| 7.6 | Borrower Disclosures | 10 |
| 7.6.A | General Initial Disclosure Requirements | 10 |
| 7.6.B | Income-Sensitive and Income-Based Repayment Disclosure Requirements | 11 |
| 7.6.C | Guarantee Disclosure | 11 |
| 7.7 | Disbursing the Loan | 12 |
| 7.7.A | Earliest Date for Disbursement | 12 |
| 7.7.B | Multiple Disbursement | 13 |
| 7.7.C | Disbursement by Individual Check | 13 |
| 7.7.D | Disbursement by Electronic Funds Transfer (EFT) or Master Check | 14 |
| 7.7.E | Disbursement for Students in Study-Abroad Programs or Foreign Schools | 14 |
| 7.7.F | Reissuing Disbursements | 15 |
| 7.7.G | Late Disbursement | 16 |
| 7.7.H | Effect of Loss of School Eligibility on Disbursement | 16 |
| 7.7.I | Effect of Bankruptcy on Disbursement | 17 |
| 7.7.J | Disbursement to Transfer Students | 17 |
| 7.7.K | Disbursement Cancellation | 18 |
| 7.7.L | Consummated and Unconsummated Disbursements | 18 |
| 7.8 | Processing the Federal Default Fee (Formerly the Guarantee Fee) | 19 |
| 7.8.A | Paying the Federal Default Fee (Formerly the Guarantee Fee) | 19 |
| 7.8.B | Recalculating the Federal Default Fee (or Guarantee Fee) | 19 |
| 7.8.C | Refunding the Federal Default Fee (or Guarantee Fee) | 20 |
| 7.9 | Processing Federal Origination Fees | 22 |
| 7.9.A | Collecting the Origination Fee | 22 |
| 7.9.B | Reporting the Origination Fee | 22 |
| 7.9.C | Refunding the Origination Fee | 23 |

This page intentionally left blank.

Chapter 7 outlines the lender's role in originating Stafford and PLUS loans.

## 7.1
## Reviewing the Loan Request

A lender's review of the loan request includes making both general and specific determinations.

## 7.1.A
## General Determinations

A lender's general responsibilities in reviewing a borrower's request for a Stafford or PLUS loan include all of the following:

- Determining the borrower's (and the student's, in the case of a parent PLUS loan) eligibility for a loan. 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)]

- 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 more information on credit standards, see Subsection 7.1.B; and for more information on bankruptcies, see Subsection 7.1.C.

- Determining the loan amount. A lender may, at its discretion, approve a loan amount that is less than the amount for which the borrower might otherwise qualify.

- Determining whether the lender's records conflict with the borrower, student, or school information and resolving any conflicts.

- Determining that neither the borrower nor the dependent student, in the case of a parent PLUS loan, currently owes on a defaulted federal education loan held by the lender for which a claim has not been filed.

- For a PLUS loan, determining that the borrower—or endorser, if applicable—does not have adverse credit or retaining a record of the circumstances under which the borrower's adverse credit is considered immaterial with regard to making the loan. (For more information on recordkeeping requirements, see Subsection 3.4.A.)

## 7.1.B
## Credit Standards and Determining Adverse Credit

A lender is not prohibited from imposing credit standards on a Stafford loan applicant. See Subsection 7.1.C for additional information regarding the lender's credit standards when the Stafford borrower has received a bankruptcy discharge.

An applicant is not eligible for a PLUS loan if he or she is determined by a lender to have adverse credit according to criteria in federal regulations. At the lender's option, a prospective PLUS loan borrower with adverse credit may obtain an endorser without adverse credit. If a parent PLUS loan applicant is required to obtain an endorser in order to be eligible for the PLUS loan, the student for whom the parent PLUS loan is being obtained may not serve as the endorser.

If a PLUS borrower obtains an endorser, the lender must ensure that it obtains enough information to collect the loan from the endorser if necessary. Such information should include, but is not limited to, an address and telephone number.

### Determining Adverse Credit

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 nationwide consumer reporting agency. The credit history should be requested so that it represents the individual's most current credit information before the first day of the loan period. A lack of credit history or insufficient credit history is not considered adverse credit for these purposes. [§682.201(c)(2)(i)]

A PLUS loan applicant is considered to have adverse credit if any of the following conditions apply:

- The applicant is 90 days or more delinquent on the repayment of any debt.
  [§682.201(c)(2)(ii)(A)]

- The applicant has had any debt discharged in bankruptcy during the 5-year period before the date of the credit report (see Subsection 7.1.C).
  [§682.201(c)(2)(ii)(B)]

- The applicant has been the subject of a default determination on any debt, a foreclosure, a tax lien, a repossession, a wage garnishment, or a write-off of a Title IV debt during the 5-year period before the date of the credit report.
  [§682.201(c)(2)(ii)(B)]

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.

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(c)(2)(iii)]

#### Loan Approval after Identifying 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 lender must retain a record supporting its decision. (For more information on recordkeeping requirements, see Subsection 3.4.A.) Examples of acceptable records include, but are not limited to:

- Documentation that during the period beginning on January 1, 2007, and ending on December 31, 2009, an applicant is or has been 180 days or less delinquent on mortgage loan payments on the applicant's primary residence or on medical bill payments for the applicant or the applicant's family.
  [HEA §428B(a)(3)(B)(i) and (ii); DCL GEN-08-08/FP-08-07]

- 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.

See Subsection 7.1.C for additional information regarding the effect of bankruptcy on a PLUS borrower's eligibility and the lender's determination of adverse credit.

## 7.1.C
## Effect of Bankruptcy on the Lender's Determination of Adverse Credit

A lender may not deny a Stafford loan to an applicant solely on the basis of a bankruptcy discharge.

In the PLUS loan process, the lender must consider any debt discharged in bankruptcy during the 5-year period before the date of the credit report to be adverse credit. However, if the lender has information on a previous or pending bankruptcy filing by a PLUS loan applicant, the lender may not deny the loan solely based on that filing. See Subsection 7.1.B for more information regarding credit standards and determining adverse credit.
[§682.201(c)(2)(ii)(B); 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 filing to be adverse credit and may deny the loan on that basis.

## 7.2
## Reviewing the Promissory Note

The lender must ensure that each loan is supported by a valid promissory note. The following subsections outline the lender's responsibilities pertaining to promissory notes prior to loan disbursement.

# 7.2.A
# Lender Responsibilities under a Master Promissory Note

The lender has the following responsibilities when making loans under a Master Promissory Note (MPN):

- Ensuring that an MPN and any required Endorser Addendum have been properly completed and signed.

- Ensuring that alterations to any information completed by the borrower on the MPN and any required Endorser Addendum 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.

- Determining the school's authorization to certify Stafford or PLUS loans using the multi-year feature of the MPN for each subsequent loan made under an existing MPN, based on information provided by the Department.

- Ensuring that either an affirmative or passive confirmation process is in place for Stafford or Grad PLUS loans made using the multi-year feature of the MPN. See Subsection 8.2.B for confirmation requirements.

- Ensuring that a process is in place to obtain the parent borrower's requested loan amount before each parent PLUS loan is disbursed under a Federal PLUS Loan Application and Master Promissory Note (PLUS MPN).

- Determining that the lender retains the right to originate loans using the MPN, if a previous loan made using the MPN has been sold to another holder.

  – If the original lender sells a loan to a new lender but does not assign the origination rights (i.e., the right to make subsequent loans to the borrower under the same MPN), then each lender may own separate loans under the same MPN. In this scenario, these lenders must determine which one of them will possess the original MPN document. Each lender may use the original MPN or a true and exact copy of the MPN to enforce any loans made using that MPN.

  – If the original lender assigns the origination rights, then the original lender may not make new loans under the MPN. The new lender may use the original or a true and exact copy of the MPN to enforce any loans it acquires and any future loans it makes using that MPN.

- Verifying that the loan is supported by a signed MPN and that the ability to make subsequent loans using that MPN has not expired.

- Providing the borrower with a Plain Language Disclosure for each subsequent loan made under the multi-year feature of the MPN.

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 date the original MPN is signed if no disbursements are made using that MPN.

- 10 years from the date the borrower signs the MPN, or the date the lender receives the MPN if the MPN is not dated. However, if a portion of the loan is disbursed on or before the date that is 10 years from the signature or receipt 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.
  [§682.401(d)(4)(v); DCL GEN-98-25; DCL GEN-99-9; DCL GEN-03-03]

A lender may elect not to make subsequent loans under an existing MPN. The lender's decision may be based on any number of circumstances—for instance, if there is a change in the borrower's circumstances (such as bankruptcy or delinquency), or because the loan is being requested under a Lender of Last Resort Program.
[DCL GEN-98-25]

The lender must ensure that a separate, valid PLUS MPN is in place in the following circumstances:

- The parent borrower is requesting PLUS loan funds for a different dependent student.

- The PLUS loan applicant is required to obtain an endorser without adverse credit. If the lender determines that the applicant has adverse credit and permits the use of an endorser, a separate Endorser Addendum must be completed for each PLUS loan. When an endorser is required, a new PLUS MPN is required for each loan. Any increase in the requested loan amount by the borrower must be approved by the endorser and requires a new PLUS MPN and Endorser Addendum.

- The school is located outside of the United States. However, in some circumstances, the Department may notify a school located outside the United States that it is eligible to make loans using the multi-year feature of the MPN.
  [DCL GEN-03-03]

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.

## 7.2.B
## Transfer Students and Master Promissory Notes

If a borrower has completed a Master Promissory Note (MPN), the borrower may obtain additional loans under the same Federal Stafford Loan Master Promissory Note (Stafford MPN) or Federal PLUS Loan Application and Master Promissory Note (PLUS MPN), as applicable, for a student who transfers, regardless of any change in school or guarantor, provided all of the following apply:

- The new school is not a foreign school.

- The new school has not been notified of restricted multi-year use by the Department.

- The MPN remains valid.

- The new school, lender, or guarantor does not require a new MPN.

- The borrower does not choose a new lender.

If a PLUS loan is made to a parent borrower who completed a PLUS MPN to benefit a dependent student and that student transfers to a school that is not eligible to, or chooses not to, offer the multi-year feature of the PLUS MPN, or if an endorser is required, the borrower must complete a new PLUS MPN for the new school. [§682.401(d)(4); DCL GEN-98-25; DCL GEN-99-9; DCL GEN-03-03]

If the Stafford or PLUS loan had been partially or fully disbursed at the previous school, the procedures outlined in Subsections 7.7.J and 5.15.B apply.

## 7.3
## Processing the Loan Request

A lender's responsibilities in processing a borrower's loan request include the following:

- Approving or denying the loan.

- 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.

- Notifying the borrower if the loan is approved by providing the borrower with initial disclosure information at or before the first disbursement of a loan (see Subsection 7.6.A).

- Disbursing the loan in accordance with federal regulations and the original disbursement schedule provided by the school, or any modifications the school makes to that schedule (see Section 7.7).

- Reporting and paying the federal origination fee to the Department and the federal default fee (formerly guarantee fee) to the guarantor, and collecting the fees from the borrower, as applicable (see Sections 7.8 and 7.9).

- Reporting and paying the 0.5% lender origination fee to the Department (this fee cannot be charged to the borrower).

- Complying with state consumer credit laws where applicable (such as marital property disclosure requirements).

- Providing the borrower—and endorser, if applicable—a copy of the executed promissory note.

- Ensuring that all required forms or equivalent electronic processes have been accurately completed by the borrower, student, school, and lender.

- Determining the correct interest rate applicable to the loan (see Section 7.4).
  [§682.206; §682.207; DCL GEN-98-25; DCL GEN-99-9]

## 7.4 Establishing Stafford Loan Interest Rates

The Stafford loan interest rate varies, based on the date the loan was first disbursed. In addition, a Stafford loan made to a borrower who subsequently enters qualifying military service may be eligible for a reduced interest rate. See Subsections 7.4.B and 10.9.B for more information.

## 7.4.A Current Stafford Interest Rates

The interest rate on all Stafford loans first disbursed on or after July 1, 2006, is a fixed rate of 6.8% for the life of the loan, except for subsidized Stafford loans made to undergraduate borrowers and first disbursed as follows:

- On or after July 1, 2008, and before July 1, 2009, the interest rate is 6%.
- On or after July 1, 2009, and before July 1, 2010, the interest rate is 5.6%.
- On or after July 1, 2010, and before July 1, 2011, the interest rate is 4.5%.
- On or after July 1, 2011, and before July 1, 2012, the interest rate is 3.4%.

[§682.202(a)(1)(ix) and (x)]

Interest rates applicable to Stafford loans first disbursed on or after July 1, 2006, are listed in Figure 7-1.

## 7.4.B Reduced Stafford Interest Rates

The Higher Education Act of 1965, as amended, extends certain provisions of the Servicemembers Civil Relief Act (SCRA) to FFELP loans made before an eligible borrower entered qualifying military service. If a Stafford loan borrower qualifies under Section 207 of the SCRA, the lender is required to reduce the interest rate on any loan that is accruing interest at a higher rate, so that it does not charge the borrower an interest rate that exceeds 6% for the period of the borrower's military service that occurs on or after August 14, 2008. The lower interest rate provision applies to any loan obtained by an eligible servicemember.
[HEA §428(d); §682.202(a)(8); *Federal Register* dated July 23, 2009, p. 36565; DCL GEN-08-12/FP-08-10]

For purposes of this provision, the maximum interest rate must take into consideration any amount of service charges, renewal charges, fees, or any other charges (except for actual insurance) with respect to the Stafford loan. The borrower must request the reduced interest rate in writing and provide the lender with a copy of initial military orders and any orders that extend his or her military service. The borrower must provide the request and documentation not later than 180 days following the last date of the borrower's military service.
[HEA §428(d); DCL GEN-08-12/FP-08-10]

When the borrower's period of military service ends, the lender is not permitted to assess any additional charge or fee to compensate for the difference between the applicable interest rate and the maximum permissible charges under the SCRA.
[*Federal Register* dated July 23, 2009, p. 36565]

Also, a lender may choose to charge a borrower an interest rate that is lower than the maximum interest rate permitted by statute (the statutory rate). If the lender charges a lower rate, the lender must ensure that reports issued to the Department (such as the Lender's Interest and Special Allowance Request and Report [LaRS report]) are adjusted. See Appendix A for more information on LaRS reporting.

If a lender chooses to charge a lower interest rate, it 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 revocation of the lower interest rate at the point of default does not apply to an interest rate that is reduced as a result of the SCRA. 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.

## 7.4.C Previous Stafford Interest Rates

Interest rates applicable to Stafford loans first disbursed before July 1, 2006, are listed in Figure 7-1.

The interest rate on all Stafford loans first disbursed on or after July 1, 1994, through June 30, 2006, is a variable rate not to exceed 8.25%. The variable interest rate is adjusted annually on July 1, and remains in effect through June 30 of the following year. (Refer to Figure 7-1 for information on the calculation of the applicable interest rates.) [HEA §427A(f); HEA §427A(g); HEA §427A(j)(1) and (2); HEA §427A(k)(1) and (2)]

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" is 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 the outstanding loans.

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.

## 7.4.D 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 Lender's Interest and Special Allowance Request and Report [LaRS report]) 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 — Figure 7-1

| Disbursement/Loan Period/Borrower Characteristics | Interest Rate |
|---|---|
| First disbursement on/after 7/1/06 | Fixed interest rate of 6.8% |
| Subsidized Stafford loans made to undergraduate borrowers and first disbursed as follows: | |
| • On or after July 1, 2008, and before July 1, 2009<br>• On or after July 1, 2009, and before July 1, 2010<br>• On or after July 1, 2010, and before July 1, 2011<br>• On or after July 1, 2011, and before July 1, 2012 | • Fixed interest rate of 6%<br>• Fixed interest rate of 5.6%<br>• Fixed interest rate of 4.5%<br>• Fixed interest rate of 3.4% |
| First disbursement on/after 7/1/98, but before 7/1/06 | *In-school, grace, and deferment periods:*<br>Variable interest rate—equal to the 91-day Treasury bill* rate plus 1.7%, not to exceed 8.25%<br>*Repayment and forbearance periods:*<br>Variable interest rate—equal to the 91-day Treasury bill* rate plus 2.3%, not to exceed 8.25% |

| Disbursement/Loan Period/Borrower Characteristics | Interest Rate |
|---|---|
| First disbursement on/after 7/1/95 but before 7/1/98 | *In-school, grace, and deferment periods:*<br>Variable interest rate—equal to the 91-day Treasury bill* rate plus 2.5%, not to exceed 8.25%<br>*Repayment and forbearance periods:*<br>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.

# 7.5 Establishing 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 PLUS or SLS loan interest rate varies, based on the date the loan was first disbursed. In addition, a PLUS or SLS loan made to a borrower who subsequently enters qualifying military service may be eligible for a reduced interest rate. See Subsection 7.5.B for more information.

## 7.5.A Current PLUS Interest Rate

The initial interest rate for each PLUS loan is determined by the date the loan is first disbursed.

A loan that is first disbursed on or after July 1, 2006, has a fixed interest rate of 8.5% throughout the life of the loan. [§682.202(a)(2)(vii)]

A loan that is first disbursed on or after July 1, 1998, but before July 1, 2006, has a variable interest rate, not to exceed 9%. The variable interest rate is adjusted annually on July 1. The variable interest 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) and (l)(2); §682.202(a)(2)(v)]

## 7.5.B Reduced PLUS Interest Rates

The Higher Education Act of 1965, as amended, extends certain provisions of the Servicemembers Civil Relief Act (SCRA) to FFELP loans made before the eligible borrower entered qualifying military service. If a PLUS loan borrower qualifies under Section 207 of the SCRA, the lender is required to reduce the interest rate on any loan that is accruing interest at a higher rate, so that it does not charge the borrower an interest rate that exceeds 6% for the period of the borrower's military service that occurs on or after August 14, 2008. The lower interest rate provision applies to any loan obtained by an eligible servicemember, including a loan on which the servicemember is a comaker, or for which the servicemember is an endorser. A PLUS loan made with an endorser who is an eligible servicemember is eligible for the lower interest rate if the servicemember signed the PLUS MPN Endorser Addendum before the start date of his or her qualifying military service.
[HEA §428(d); §682.202(a)(8)(e); *Federal Register* dated July 23, 2009, p. 36565; DCL GEN-08-12/FP-08-10]

For purposes of this provision, the maximum interest rate must take into consideration any amount of service charges, renewal charges, fees, or any other charges (except for actual insurance) with respect to the PLUS loan. The 6% rate applies to any PLUS loan on which the servicemember is the only borrower, on any joint obligation where one borrower or both borrowers of the comade PLUS loan qualify as the servicemember, or any loan on which the servicemember is the endorser. The borrower or eligible endorser must request the lower interest rate in writing and provide the lender with a copy of initial military orders and any orders that extend his or her military service. The servicemember must provide the request and documentation not later than 180 days following the last date of applicable military service.
[HEA §428(d); HEA §438(g); DCL GEN-08-12]

When the borrower's, comaker's, or endorser's period of military service ends, the lender is not permitted to assess any additional charge or fee on the loan to compensate for the difference between the applicable interest rate and the maximum permissible charges under the SCRA.
[*Federal Register* dated July 23, 2009, p. 36565]

Also, a lender may choose to charge a borrower an interest rate that is lower than the maximum interest rate permitted by statute (the statutory rate). If the lender charges a lower rate, the lender must ensure that reports issued to the Department (such as the Lender's Interest and Special Allowance Request and Report [LaRS report]) are adjusted. See Appendix A for more information on LaRS reporting.

If a lender chooses to charge a lower interest rate, it 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 revocation of the lower interest rate at the point of default does not apply to an interest rate that is reduced as a result of the SCRA. 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.

## 7.5.C
## Previous PLUS and SLS Interest Rates

In addition to current 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 Figure 7-2.

### PLUS and SLS Loan Interest Rates — Figure 7-2

| Disbursement/Loan Period/Borrower Characteristics | Interest Rate |
|---|---|
| First disbursement on/after 7/1/06 (PLUS loans only) | Fixed interest rate of 8.5% |
| First disbursement on/after 7/1/98, but before 7/1/06 (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 adjusted annually on July 1—equal to the weekly average one-year constant maturity Treasury yield * for the last calendar week ending on or before June 26 preceding July 1 of each year plus 3.1%, not to exceed 9%<br>[§682.202(a)(2)(ii) through (iv)] |
| First disbursement on/after 10/1/92 but before 7/1/94 | Variable interest rate adjusted annually on July 1—equal to the weekly average one-year constant maturity Treasury yield * for the last calendar week ending on or before June 26 preceding July 1 of each year plus 3.1%, not to exceed 10% for PLUS loans and 11% for SLS loans<br>[§682.202(a)(3)(ii) through (iv)] |
| 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 adjusted annually on July 1—equal to the weekly average one-year constant maturity Treasury yield * for the last calendar week ending on or before June 26 preceding July 1 of each year 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% |

*The "weekly average one-year constant maturity Treasury yield" index is effective beginning with the interest rate calculation for July 1, 2001. Prior to that date, the index was based on the 52-week Treasury bill auctioned at the final auction held prior to the preceding June 1.

# 7.6
# Borrower Disclosures

Certain information must be disclosed to:

- The borrower by the lender in an initial disclosure at or before the first disbursement of the loan (see Subsections 7.6.A and 7.6.B).
- The lender by the guarantor when the loan is guaranteed (see Subsection 7.6.C).

## 7.6.A
## General Initial Disclosure Requirements

At or before the first disbursement of a Stafford or PLUS loan, the lender must provide the borrower (at no cost to the borrower) with initial disclosure information in a written or electronic format. The lender must provide the following loan- and lender-specific information separate from the Borrower's Rights and Responsibilities statement or Plain Language Disclosure:

- A statement prominently and clearly displayed and in bold print that the borrower is receiving a loan that must be repaid.
- The lender's name and the address to which correspondence with the lender and payments should be sent.
- A telephone number accessible at no cost from within the U.S., and, at the lender's option, an electronic address at which the borrower can obtain additional loan information.
- The principal balance.
- The amount of any charges, including the federal origination fee and federal default fee and an explanation of whether those charges will be collected by the lender before or at the time of each disbursement of the loan, deducted from the loan proceeds, paid separately by the borrower, or paid by the lender.
- The actual interest rate.
- A statement of the cumulative outstanding balance of loans the borrower owes to the lender, including the loan being disbursed, and an estimate of—or information that will allow the borrower to estimate—the projected monthly payment amount based on the cumulative outstanding balance.

The lender must also provide a borrower with a separate statement, in simple and understandable terms, that summarizes the borrower's rights and responsibilities with respect to the loan and the consequences of defaulting on the loan. The lender must provide the borrower with either the Borrower's Rights and Responsibilities statement or, in the case of each subsequent loan made using the multi-year feature of the Master Promissory Note, the Plain Language Disclosure, in order to meet the required disclosure of the following information:

- 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 all nationwide consumer reporting agencies.
- For a borrower of an unsubsidized Stafford loan or Grad PLUS loan, an explanation that the borrower has the option to pay the interest that accrues while the borrower is enrolled in school at least half time and an explanation of the frequency of interest capitalization should the borrower not pay the interest that accrues during the in-school period.
- For a borrower of a parent PLUS loan, an explanation that the borrower has the option to defer payment while the student is enrolled in school at least half time and an explanation of the frequency of interest capitalization should the borrower not pay the interest that accrues during the in-school deferment period.
- For a borrower of a parent PLUS loan, an explanation that the borrower may be eligible for a deferment while he or she is enrolled in school at least half time.
- An explanation of when repayment of the loan is required and when the borrower is required to pay interest that accrues on the loan.
- A description of the types of repayment plans that are available for the loan (see Section 10.8 for repayment plans).

- The minimum and maximum number of years for repayment and the minimum annual payment amount.
- 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.
- 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 summarizing the circumstances under which the borrower may defer repayment of the principal or accruing interest.
- A statement summarizing the circumstances under which a borrower may obtain a forbearance.
- A description of the options available for and requirements of loan forgiveness.
- A statement of the availability of the Department of Defense program for repayment of a loan on the basis of military service.
- A statement on the definition and consequences of default, including litigation, reporting to all nationwide consumer reporting agencies, liability for substantial collection costs, state offsets or federal Treasury offsets, wage garnishments, and ineligibility for additional federal student aid and assistance under most federal benefit programs.
- An explanation of the possible effects of accepting a loan on the student's eligibility for other financial aid.
- An explanation of any costs the borrower may incur during repayment or in the collection of the loan, including fees that the borrower may be charged, such as late payment fees and collection costs.
- A statement that the loan proceeds will be transmitted to the school for delivery to the borrower.

If the loan amount, interest rate, or fee amount changes, 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. [HEA §433(a); §682.205(a) through (c) and (e) through (h)]

## 7.6.B Income-Sensitive and Income-Based Repayment Disclosure Requirements

The lender must also provide the borrower, in a written or electronic format, the initial disclosure information on the availability of income-sensitive repayment and, except for a parent PLUS borrower or for a Consolidation borrower whose Consolidation loan paid one or more parent PLUS loans, the availability of income-based repayment. By providing the borrower with the promissory note and associated materials approved by the Department, the lender meets the requirements to disclose the following information (issued together or separately):

- A statement that the borrower is eligible, including through loan consolidation, for income-sensitive repayment, and may be eligible for income-based repayment.
- Procedures by which the borrower may choose income-sensitive or income-based repayment.
- Where and how the borrower may obtain more information on income-sensitive and income-based repayment.
  [§682.205(h)]

## 7.6.C Guarantee Disclosure

A guarantor provides a guarantee disclosure to the lender when the loan is guaranteed (see Subsection 3.3.B for information about loans made under a blanket guarantee agreement). 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, or generate a corrected notice. Some lenders use the guarantee disclosure to fulfill certain requirements of an initial borrower disclosure.

▲ Lenders may contact individual guarantors for more information on guarantee disclosure processing. See Section 1.5 for contact information.

## 7.7 Disbursing the Loan

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(b) definition of disbursement]

The lender must disburse loans in compliance with federal requirements for the origination of FFELP loans (see Subsection 7.1.A). In addition, the lender must comply with information certified by the school on the disbursement schedule and, unless the lender has a separate agreement with the guarantor to disburse funds prior to the issuance of a guarantee (see Subsection 3.3.B), the lender must comply with information supplied by the guarantor on the guarantee disclosure.

The following loans or portions of loans will not be insured by the guarantor:

- The amount disbursed that exceeds the amount on the guarantee disclosure.

- The amount disbursed under an individual agreement with a guarantor (i.e., blanket guarantee) that exceeds the amount for which the borrower is eligible, if the lender knew or had reason to know that the borrower did not qualify for the loan or some part of the loan. (See Subsection 5.17.C for information regarding ineligibility due to lender error.)

- The amount that is disbursed prior to the scheduled disbursement date certified by the school on the disbursement schedule or any revised disbursement date that the school, or the guarantor acting on behalf of the school, subsequently requests. Some guarantors may allow reinstatement of the loan guarantee under the individual guarantor's policy. The lender should contact the guarantor if this condition occurs.

A lender that disburses loan proceeds through an escrow agent must make funds available to the escrow agent no earlier than 10 days prior to the date of the scheduled disbursement to the school or borrower and must require the escrow agent to disburse loan proceeds no later than 10 days after receiving the proceeds from the lender. [HEA §428(i)(1); §682.207(b)(1)(iv)]

Neither a lender nor a school may:

- Obtain a borrower's power of attorney or other authorization to endorse or otherwise approve the cashing of a loan check, or the delivery of funds disbursed by EFT.

- Use a document containing the borrower's power of attorney to support another party's endorsement or other method used to approve the cashing of a loan check, or the delivery of loan funds disbursed through EFT.
  [§682.207(b)(3)]

See Subsection 7.7.E for acceptable uses of power of attorney applicable to students enrolled in study-abroad programs.

### 7.7.A Earliest Date for Disbursement

A lender or its disbursing agent must not disburse a Stafford or PLUS loan before obtaining a valid Master Promissory Note (MPN), a disbursement schedule provided by the school, and, except with the guarantor's prior approval, a guarantee disclosure from the guarantor.

The lender must disburse the loan according to the original schedule provided by the school, or any modifications the school makes to that schedule. 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 Section 6.4. For more information about the earliest dates that loan funds may be disbursed and delivered, see Figure 8-4. [§682.207]

For more information on scheduling disbursements and payment periods, see Sections 6.4 and 6.3.

## 7.7.B Multiple Disbursement

Federal regulations require that a lender disburse each Stafford and PLUS loan according to the disbursement schedule provided by the school (see Section 6.4). 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 lender may make a Stafford or PLUS loan in a single disbursement in the following cases:

- The loan is made for a period of enrollment that is not more than one semester, trimester, or 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 data are available is less than 10%.
  [HEA §428G(a)(3); §682.604(c)(8)(i)(A) and (B)*(1)*; §685.303(b)(6)(i)(A)(1) and (2)]

- The loan is 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% for the most recent fiscal year for which information is available.
  [§682.604(c)(8)(ii); §685.303(b)(6)(ii)(B)]

A school must cease to certify loans based upon these exceptions no later than 30 days after the date it receives notice from the Department of a cohort default rate that causes the school to no longer meet the necessary qualifications.
[§682.603(h)(1)(i)]

## 7.7.C Disbursement by Individual Check

A Stafford loan disbursed by an individual check must be made payable to the student or made copayable to the student and the school. A PLUS loan disbursed by an individual check must be made copayable to the borrower and the school. The lender must provide both the borrower's and student's names for parent PLUS loans. The lender also must provide sufficient identifying information on the individual check to ensure that the school may efficiently match the check to the appropriate student. Such information may include the borrower's and/or student's Social Security number; a student identifier assigned by the school or lender, and communicated to the other party; or other reliable identifying information. The lender must send an individual check for a Stafford or PLUS loan borrower directly to the school, except in the case of a student enrolled at an eligible foreign school (see Subsection 7.7.E).
[§682.207(b)(1)(ii)(A); §682.207(b)(1)(v)(B)(2) and (3)]

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. See Subsection 7.7.E for acceptable uses of power of attorney applicable to students enrolled in study-abroad programs.

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)]

## 7.7.D
## Disbursement 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 to the student's account with the school. This authorization is included on the Master Promissory Note (MPN). See Section 8.3 for more information on required authorizations.
[§682.207(b)(1)(ii)(B) and (C); §682.610(b)(5)]

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)(C)]

For proceeds disbursed by EFT or master check, the lender must provide the school with a roster (transmittal) listing each borrower's name and Social Security number (SSN), the gross amount of the disbursement, and the net amount of the disbursement after the federal default and origination fees are deducted, as applicable. For a parent PLUS loan, the roster also must include the name and SSN or other reliable identifying information 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.
[§682.207(b)(1)(ii)(B) and (C); §682.207(b)(1)(v)(B)(1)]

▲ Lenders may contact individual guarantors for more information on disbursement by EFT or master check. See Section 1.5 for contact information.

## 7.7.E
## Disbursement for Students in Study-Abroad Programs or Foreign Schools

If a student is enrolled in a study-abroad program or a foreign school, special disbursement rules apply. Stafford loan funds may be disbursed directly to the student under some circumstances; however, under no circumstances may PLUS loan funds be disbursed directly to the borrower or dependent student. The lender must disburse PLUS loan funds for a student attending a study-abroad program or a foreign school in the same manner as it disburses PLUS loan funds for a student attending a domestic school (see Section 7.7).
[§682.207(b)(1)(v)(C)]

### Student Enrolled in a Study-Abroad Program

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 either of the following alternatives to the normal disbursement process:

- Disbursement directly to the student. The lender may mail an individual check to the student or deposit the funds into the student's personal bank account. In either case, prior to each disbursement, the lender or guarantor must verify the student's enrollment in the study-abroad program by contacting the home institution by telephone, e-mail, or facsimile. For a new student, the lender or guarantor must confirm the student's admission to the program. For a continuing student, the lender or guarantor must confirm that the student continues to be enrolled at least half time.
  [HEA §428(b)(1)(N)(ii); §682.207(b)(1)(v)(C)(1); §682.207(b)(2)(i)(B); DCL GEN-06-02]

- 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.
  [§668.165(b)(1); §682.207(b)(1)(v)(C)(2)]

The lender is required to comply with the student's request.

#### Student Enrolled in a Foreign School

At the request of an official authorized by the foreign school to act on behalf of the school in administering the FFELP, the lender must disburse Stafford loan proceeds directly to a student enrolled at an eligible foreign school. The request from the authorized official may be a blanket request for all students, or a request for each individual student. Prior to each direct disbursement to the borrower by the lender, the guarantor must verify in the Department's Postsecondary Education Participants System (PEPS) that the foreign school is certified to participate in the FFELP. In addition, either the lender or guarantor must contact an authorized official of the foreign school by telephone, e-mail, or facsimile and verify that the student is enrolled at least half time. For a new student, the lender or guarantor must confirm the student's admission to the program. For a continuing student, the lender or guarantor must confirm that the student continues to be enrolled at least half time. Guarantors and lenders must coordinate their activities to ensure that these requirements are met prior to any direct disbursement of Stafford loan funds.
[HEA §428(b)(1)(N)(iii); §682.207(b)(2)(i)(A); §682.207(b)(2)(iii)]

#### Documentation of Enrollment Verification

The lender or guarantor that is verifying enrollment for a student enrolled in a study-abroad program or a foreign school must maintain documentation of all of the following:

- The name and telephone number of the school representative contacted.
- The date of the contact.
- The enrollment period.
- Verification of at least half-time enrollment.
- Any other pertinent information received from the school.

[§682.207(b)(2)(ii)]

#### Notification of Direct Disbursement

At the time of the lender's direct disbursement to a student enrolled in a study-abroad program or a foreign school, the lender must notify the home institution, for a student enrolled in a study-abroad program, or the foreign school, for a student enrolled in a foreign school, of all of the following:

- The name and Social Security number of the student.
- The type of loan.
- The amount of the disbursement, including the amount of any fees assessed the borrower.
- The date of the disbursement.
- The name, address, telephone and facsimile number or e-mail address of the lender, servicer, or guarantor to which any inquiries should be addressed.

[§682.207(b)(2)(iv)]

## 7.7.F Reissuing Disbursements

Servicing requirements for reissuing loan disbursements differ based on whether the original disbursement was made during regular disbursement periods or made as a late disbursement.

In all reissue situations, the lender must clearly document the reason for the reissue.

#### Reissues on Regular Disbursements

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 no later than 120 days after the earlier of the last day of the period of enrollment for which the loan is intended or the student's last date of at least half-time enrollment.

A lender may reissue a loan disbursement if the original disbursement was made according to the school's disbursement schedule, the loan was canceled or not consummated, and the school subsequently determines that the student should have received the disbursement.

The lender may reissue a disbursement only upon the request of the school, if the school's request is honored.

#### Reissues on Late Disbursements

For proceeds originally disbursed as a late disbursement, the lender must reissue the disbursement no later than 120 days after the date on which the original late disbursement was made. See Subsection 7.7.G. for more information about late disbursement.

#### Exception to Reissue Time Frames

In exceptional cases, the lender may reissue a loan disbursement more than 120 days after the last date of the student's eligible enrollment or more than 120 days after the date on which the original late disbursement was made, 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 student and the school. The lender should document the exceptional circumstances.

#### Interest Accruals on Reissued Disbursements

If the reissued disbursement is for the first or subsequent disbursement of a subsidized Stafford loan, the reissue date determines the subsidized interest accrual start date for that disbursement. See Subsection A.1.B for more information regarding the start date for interest subsidy accruals. If the reissued disbursement is for the first or subsequent disbursement of an unsubsidized Stafford or PLUS loan, the reissue date determines the interest accrual start date for borrower interest. Lenders are responsible for making the appropriate adjustments on the Lender's Interest and Special Allowance Request and Report (LaRS report). See Appendix A for more information on LaRS reporting.

The 120-day monitoring requirement outlined in Subsection 7.7.L begins on the date the disbursement is reissued.

#### Documentation on Reissued Disbursements

Lenders must maintain documentation of the reason for a reissued disbursement. Such documentation must include both the original disbursement date and the reissue date.

## 7.7.G
## Late Disbursement

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 borrower's loan eligibility before the end of the loan period or the date on which the student ceased to be enrolled at least half time, whichever is earlier, and determined that 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 8.7.D), 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 loan period.
  [§682.207(f)]

For information on late delivery requirements for schools, see Subsection 8.7.E.

## 7.7.H
## Effect of Loss of School Eligibility on Disbursement

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 disbursements on loans for which first disbursements have already been made.
[§668.26(d)(2)]

## 7.7.I
## Effect of Bankruptcy on Disbursement

When a borrower files a bankruptcy action before a loan is fully disbursed, the lender must ensure that loan funds are correctly disbursed. Processing differences relate to whether the bankruptcy action requires the filing of a claim with the guarantor or if the lender will simply suspend collection activities on the loan until the conclusion of the bankruptcy action.

### Bankruptcy Action Resulting in Claim Filing

If a lender holds loans that are not yet disbursed or are partially disbursed at the time the lender is notified of the borrower's bankruptcy filing and if that bankruptcy action will result in the lender filing a bankruptcy claim with the guarantor, the lender is strongly encouraged to:

- 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.

### Bankruptcy Action Not Resulting in Claim Filing

If the bankruptcy action does not require the filing of a claim with the guarantor, the lender may—but is not required to—make subsequent disbursements of a loan. If the lender chooses to make subsequent disbursements, the lender must not ask the school to return any funds not yet delivered by the school to the borrower. If the lender chooses not to make the remaining disbursements, the lender must notify the school, the borrower, and the guarantor of the disbursement cancellations. The lender also must notify the borrower that he or she may reapply for the loan funds in the same amount that was not disbursed. The lender must ensure that decisions to cancel—or not cancel—subsequent disbursements are administered consistently.

If the lender cancels any of the undisbursed or undelivered funds because of the bankruptcy action, the lender must agree to make a new loan for the amount that was canceled or any remaining loan eligibility as determined by the school.

To obtain funds that were canceled due to a bankruptcy filing, the borrower must request loan funds and the school must certify the revised eligibility amount. The lender may also choose to cancel an existing Master Promissory Note (MPN) and require the borrower to sign a new note to obtain loan funds for which the school determines the borrower to be eligible.

In some cases, the Stafford and PLUS borrower may be required by the court to receive approval from the bankruptcy trustee to incur post-petition debt. In these situations, neither the lender nor the school is responsible for ensuring that the borrower has obtained such approval.

Lenders should refer to Subsection 13.8.A 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.

## 7.7.J
## Disbursement to Transfer Students

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.

The student or parent borrower seeking additional Stafford or PLUS loan funds must reapply at the new school. Until the first loan or the balance of any undisbursed portion of the loan at the prior school has been canceled, some guarantors will be unable to guarantee a loan for attendance at the new school. To avoid delays in processing the borrower's loan request at the new school, the lender should instruct the guarantor to cancel the loan or the undisbursed portions of the loan.

For information regarding eligibility requirements specific to transfer students, see Section 5.15. For information about determining loan eligibility for a transfer student, see Section 6.1. For information about transfer students and promissory notes, see Subsection 7.2.B.

## 7.7.K 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 borrower no longer wants the disbursement.
- The loan proceeds are not negotiated within 120 days after disbursement.
- The student withdraws or the student or parent borrower is otherwise no longer eligible for the disbursement.
- The lender receives reliable information from any source, either verbal or written—including a death certificate, telephone call, letter, electronic communication, or other notification that the Stafford or PLUS loan borrower—or the dependent student for whom a parent borrowed a parent PLUS loan—died before the disbursement was consummated. See Subsection 7.7.L for information about consummated and unconsummated disbursements.

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 of the disbursement cancellation in a format acceptable to the guarantor.

## 7.7.L Consummated and Unconsummated Disbursements

A lender must distinguish, for recordkeeping and reporting purposes, between a consummated and an unconsummated disbursement.

#### Consummated Disbursements

A disbursement is consummated if either of the following occurs:

- The disbursement check is negotiated within 120 days after the date of disbursement.
- The EFT or master check funds are released from the account maintained by the school within 120 days after the date of disbursement.
  [§682.406(a)(2)(i) and (ii)]

If a consummated disbursement is paid in full by the borrower or the school within 120 days after the date on which it was disbursed, a lender is entitled to receive applicable federal interest benefits and special allowance payments through the date the loan is fully repaid. The borrower may also be entitled to a refund of any guarantee fees and origination fees (see Subsection 7.8.C and 7.9.C, respectively).
[§682.300(b)(2)(i); §682.202(c)(7); §682.202(d)(4)]

#### Unconsummated Disbursements

A disbursement is unconsummated if any of the following occurs:

- The disbursement check is returned uncashed to the lender.
- The disbursement check is not negotiated on or before the 120th day after the date of disbursement.
- The EFT or master check funds are not released from the account maintained by the school on or before the 120th day after the date of disbursement.

A lender is entitled to receive applicable federal interest benefits and special allowance payments, unless notified that a disbursement is unconsummated (see Subsection A.1.B and A.2.B).
[HEA §428(a)(7); §682.300(b) and (c)(4); §682.302(b)(3) and (d)(2)]

If an unconsummated disbursement is due to a student's withdrawal, the lender must cancel all pending disbursements and advise the guarantor of the cancellation. If an unconsummated disbursement is *not* due to a student's withdrawal, the lender may make, at the request of the school, a subsequent disbursement of the loan. In the latter case, the lender must report the unconsummated disbursement to the guarantor and advise the guarantor, in an acceptable format, not to cancel the loan's guarantee.
[§682.207(b)(1)(vii); §682.300(c)(4); §682.302(d)]

If the lender makes a disbursement, not knowing that a previous disbursement was unconsummated, and the subsequent disbursement is consummated, the loan retains its guarantee as long as the lender has notified the guarantor of the subsequent disbursement according to the

guarantor's established procedures. The lender is entitled to receive applicable federal interest benefits and special allowance payments on a consummated disbursement with a valid guarantee.

▲ Lenders may contact individual guarantors for more information on procedures for reporting and processing unconsummated disbursements. See Section 1.5 for contact information.

## 7.8 Processing the Federal Default Fee (Formerly the Guarantee Fee)

A loan guaranteed on or after July 1, 2006, is subject to a federal default fee equal to 1% of the loan's principal. A loan disbursed on or after July 1, 1994, for a period of enrollment that either includes or begins after that date, and for which the date of guarantee of principal is before July 1, 2006, is subject to a maximum 1% guarantee fee. [HEA §428(b)(1)(H)(i) and (ii); §682.401(b)(10)(iv)(B)]

If the federal default fee is not remitted by the lender within 45 calendar days after any disbursement of the loan proceeds, 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 within the 45-day period and if any loan guarantees are going to be canceled.

▲ Lenders may contact individual guarantors for more information on fee payment and reporting requirements. See Section 1.5 for contact information.

## 7.8.A Paying the Federal Default Fee (Formerly the Guarantee Fee)

The federal default fee may be assessed to the lender by the guarantor, and the lender may pass the fee on to the borrower. If the lender is deducting the federal default fee from the loan proceeds, the fee must be deducted proportionately from the loan disbursements for multiply disbursed loans. The lender is not permitted to deduct the full amount of the fee for a multiply disbursed loan from a single disbursement of the loan. [§682.401(b)(10)(iii)]

A lender will receive an invoice for the fees owed, if applicable, on all loans scheduled for disbursement. The lender must reconcile the invoice for loans actually disbursed and remit payment of the fees to the guarantor.

## 7.8.B Recalculating the Federal Default Fee (or Guarantee Fee)

In most cases, a lender will not be required to calculate federal default fees (or guarantee fees) and will simply pay the fee amount that appears on the guarantee disclosure.

If required by the guarantor, a lender must recalculate the federal default fee (or guarantee fee) when the amount of a disbursement is increased or decreased—regardless of whether 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 federal default fee (or 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 guarantors for more information on fee recalculation requirements. See Section 1.5 for contact information.

## 7.8.C
## Refunding the Federal Default Fee (or Guarantee Fee)

A lender must refund the federal default fee (or guarantee fee) or an appropriate prorated amount of the 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.
  [§682.401(b)(10)(vi)]

**Borrowers with No Loans in Repayment**

If a borrower who has no 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 federal default fee (or guarantee fee) or an appropriate prorated amount of the fee, as applicable. The lender must apply the refund of the 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 10.11.A regarding applying regular payments and Subsection 10.11.B regarding applying prepayments). The lender must comply with the borrower's request.
[§682.401(b)(10)(vi)(B)(2)(i)]

## Calculating the Amount of the Federal Default Fee (or Guarantee Fee) Refund Figure 7-3

When calculating the amount of a federal default fee (or guarantee fee) refund, lenders should use the following formula:

$$\frac{\text{Amount Returned to Lender} \times \text{Federal Default Fees (or Guarantee Fees) Paid to Date on Loan*}}{\text{Net Amount Disbursed to Date*}} = \textbf{Credit Due Borrower**}$$

* 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 fee refund formula, or one that results in an equivalent end result, to better ensure that the amount of fee refund calculated and returned to the borrower will be the same as the amount requested and returned from the guarantor.

## Examples of Calculating Federal Default Fee or Guarantee Fee Refunds — Figure 7-4

Consider the following calculation methodology on a sample loan of $2,625 made in two disbursements with a 1% federal default fee (or guarantee fee):

| Sample Loan Terms: | Gross Disbursement Amount | Fee (1%) | Origination Fee (2%) | Net Disbursement Amount |
|---|---|---|---|---|
| Disbursement 1 | $1,313.00 | $13.13 | $26.26 | $1,273.61 |
| Disbursement 2 | $1,312.00 | $13.12 | $26.24 | $1,272.64 |
| **Total Loan Amount** | $2,625.00 | $26.25 | $52.50 | $2,546.25 |

**Example 1**
First disbursement made; school returns $1,273.61.

$$\frac{\$1{,}273.61 \text{ (Amount Returned to Lender)} \times \$13.13 \text{ (Fees Paid to Date)}}{\$1{,}273.61 \text{ (Net Amount Disbursed to Date)}} =$$

$$\frac{\$16{,}722.4993}{\$1{,}273.61} = \$13.13 \text{ (Credit Due Borrower)}$$

**Example 2**
First disbursement made; school returns $650.58.

$$\frac{\$650.58 \text{ (Amount Returned to Lender)} \times \$13.13 \text{ (Fees Paid to Date)}}{\$1{,}273.61 \text{ (Net Amount Disbursed to Date)}} =$$

$$\frac{\$8{,}542.1154}{\$1{,}273.61} = \$6.7070 = \$6.71 \text{ (Credit Due Borrower)}$$

**Example 3**
First and second disbursements made; school returns $650.58.

$$\frac{\$650.58 \text{ (Amount Returned to Lender)} \times \$26.25 \text{ (Fees Paid to Date)}}{\$2{,}546.25 \text{ (Net Amount Disbursed to Date)}} =$$

$$\frac{\$17{,}077.7250}{\$2{,}546.25} = \$6.7070 = \$6.71 \text{ (Credit Due Borrower)}$$

#### Borrowers with Loans in Repayment

If a borrower has 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 federal default fee (or guarantee fee) or an appropriate prorated amount of the fee, as applicable.
[§682.401(b)(10)(vi)(B)(2)(ii)]

If the lender paid the federal default fee (or guarantee fee) instead of deducting the fee from the borrower's loan, the lender may retain the fee and is not required to refund it to the borrower.

If the borrower paid his or her federal default fee (or 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 federal default fee (or guarantee fee). See Section 1.5 for contact information.

## 7.9 Processing Federal Origination Fees

Federal origination fees are charged by the Department of Education to offset the costs of the FFELP. Origination fees are assessed on all Stafford and PLUS loans and are paid via the lender's quarterly filing of its Lender Reporting System (LaRS).

## 7.9.A Collecting the Origination Fee

Before a borrower's proceeds can be disbursed, the lender must collect the origination fee from the borrower (unless the lender does not charge the fee to the borrower in the case of a Stafford loan). See Subsection 3.5.A for additional information on assessing the origination fee. If the fee is being deducted from the loan proceeds, the fee must be deducted proportionately from the loan disbursements. The lender is not permitted to deduct the full amount of the fee from a single disbursement of the loan.
[HEA §438(c)(2); §682.202(c)(1) and (6)]

## 7.9.B Reporting the 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 Lender's Interest and Special Allowance Request and Report (LaRS report). 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 origination fees were already paid, should be reported on the lender's LaRS report for a refund of the fee from the Department.
[§682.305(a)(1) and (2)]

If a lender owes origination fees, the lender must submit the LaRS report to the Department even if the lender is not owed or does not wish to receive interest benefits or special allowance payments. Origination fees should not be sent to the Department when the lender prepares its LaRS report. Generally, 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 the lender. The exceptions are if the total origination fees exceed the amount of interest benefits and special allowance payments due from the Department, or if the lender has not submitted an acceptable LaRS report in a timely manner.
[§682.305(a)(3)(iii)]

If the total origination fees due the Department in a given quarter exceed the sum of interest benefits and special allowance payments due the lender in the same quarter, the Department may deduct the remaining unpaid fees from subsequent quarterly payments to the lender until the total origination fees are paid. If the full amount of the fees cannot be collected within two quarters, the Department may collect the unpaid amount directly from the originating lender. 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 no more than 30 days following the date on which the lender's accurate report is received by the Department's processing center.
[§682.305(a)(3)(iii) through (v)]

If an originating lender sells or otherwise transfers a loan, the originating lender remains liable for payment of the origination fees to the Department. If the full amount of the fees cannot be collected from the originating lender, the Department may, following written notice, deduct the

unpaid fees from subsequent quarterly payments to the holder until the sum of the outstanding origination fees are paid. If the full amount of the fees cannot be collected by deducting them from quarterly payments to the holder within two quarters, the Department may collect the unpaid amount directly from the holder. The Department will not pay interest benefits or special allowance payments to the holder or pay reinsurance to the guarantor until the origination fees are paid.
[§682.305(a)(3)(iv) through (v) and (a)(4)]

For further information on origination fees and LaRS reporting, see Appendix A.

## 7.9.C
## Refunding the 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.
  [§682.202(c)(7)]

#### Borrowers with No Loans in Repayment

If a borrower who has no 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 10.11.A regarding applying regular payments and Subsection 10.11.B regarding applying prepayments). The lender must comply with the borrower's request.
[§682.202(c)(7)(ii)(A)]

#### Borrowers with Loans in Repayment

If a borrower has 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)(7)(ii)(B)]

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.

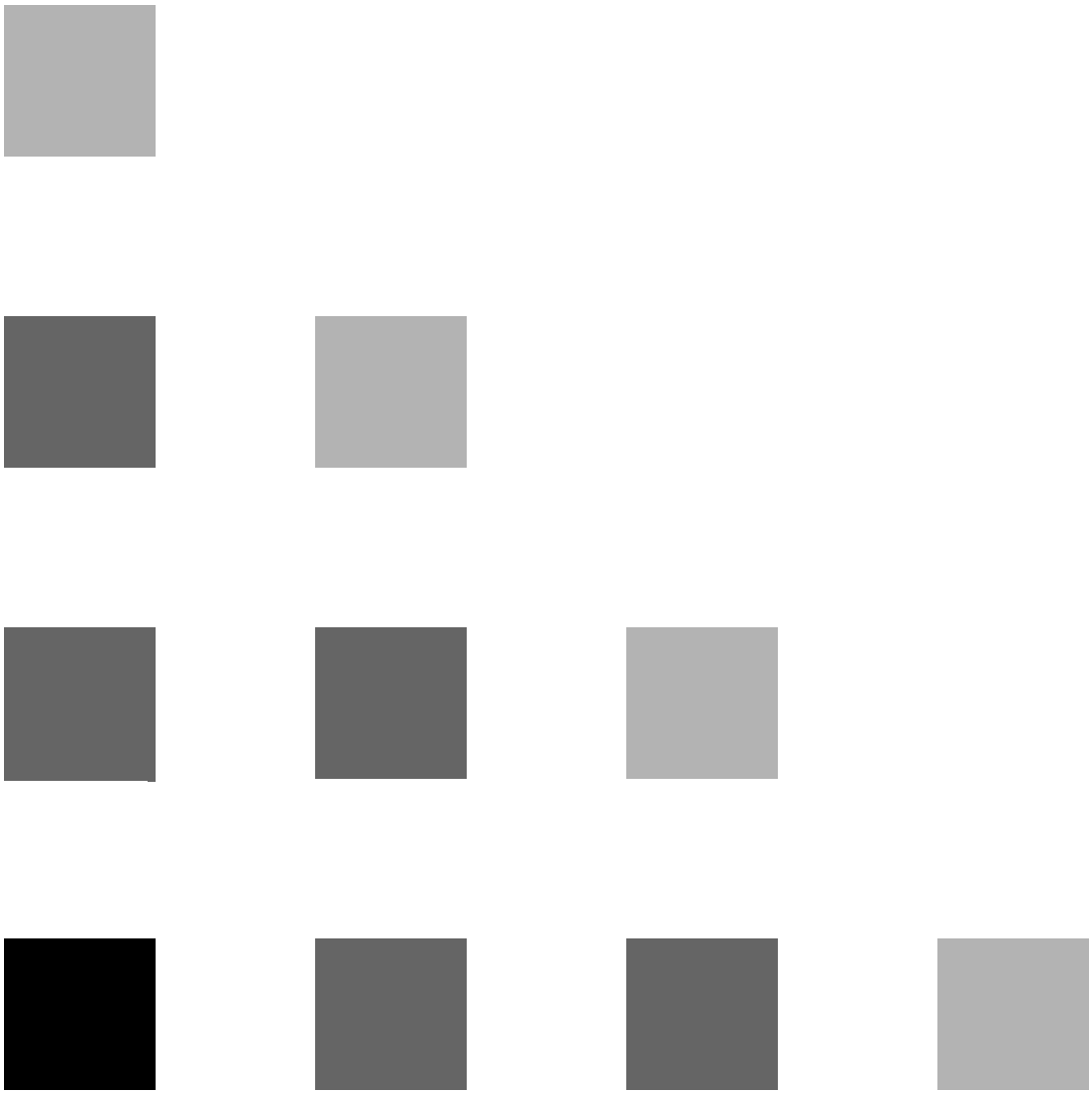
This page intentionally left blank.

# Tab Locator Page

## Remove this page and replace with tab divider.

# Tab Locator Page

## Remove this page and replace with tab divider.



# 8 Loan Delivery


| | | |
|---|---|---|
| 8.1 | Managing Loan Funds | 1 |
| 8.2 | Required Notices | 2 |
| 8.2.A | Initial Notice of Funds | 2 |
| 8.2.B | Confirmation Requirements for the Multi-Year Feature of the MPN | 2 |
| 8.2.C | School's Notice of Credit to Student's Account | 3 |
| 8.2.D | School's Notice of Borrower's Right to Cancel Loan Disbursed by EFT or Master Check | 3 |
| 8.2.E | Notification of Late Disbursement or Post-Withdrawal Disbursement of Loan Funds | 4 |
| 8.3 | Required Authorizations | 4 |
| 8.3.A | Authorization Modifications and Cancellations | 5 |
| 8.3.B | Authorization for Release of EFT/Master Check Disbursements | 5 |
| 8.4 | Assessing Satisfactory Academic Progress | 7 |
| 8.5 | Completing Verification | 9 |
| 8.6 | Managing Overawards | 9 |
| 8.7 | Delivering Loan Funds at Eligible Schools | 10 |
| 8.7.A | Delivery Time Frames | 10 |
| 8.7.B | Delivering Second and Subsequent Disbursements | 13 |
| 8.7.C | Early Delivery | 14 |
| 8.7.D | Delayed Delivery | 15 |
| 8.7.E | Late Delivery | 16 |
| 8.7.F | Delivery in Credit-Hour Programs Offered in Modules | 17 |
| 8.7.G | Delivery to Borrowers in Special Circumstances | 17 |
| 8.7.H | Delivery to Transfer Students | 19 |
| 8.7.I | Delivery Methods | 19 |
| 8.8 | Managing Credit Balances | 21 |
| 8.8.A | Timeframes for Paying Credit Balances | 21 |
| 8.8.B | How to Pay Credit Balances | 21 |
| 8.8.C | Holding Credit Balances | 23 |
| 8.8.D | Treatment of a Title IV Credit Balance When a Student Withdraws | 23 |
| 8.8.E | Treatment of a Title IV Credit Balance When a Student Dies | 24 |
| 8.9 | Return of Loan Funds | 24 |
| 8.9.A | Return of Undelivered Loan Funds | 24 |
| 8.9.B | Return of Ineligible Borrower Loan Funds | 25 |
| 8.9.C | Return of Unearned Loan Funds | 26 |
| 8.9.D | Return of Loan Funds for a Deceased Borrower | 27 |
| 8.10 | Delivery When Department Approval Is Required | 31 |
| 8.11 | Delivering Loan Funds in Cases of Lost School Eligibility | 31 |
| 8.11.A | Exceptions to Delivery Restrictions at Ineligible Schools | 31 |
| 8.11.B | Delivery of Second or Subsequent Disbursements after a School Loses Eligibility | 31 |

This page intentionally left blank.

Chapter 8 describes requirements and procedures that pertain to the school's delivery of Stafford and PLUS loan proceeds.

Loan delivery encompasses a school's processing of Stafford and PLUS loan proceeds and delivery of those proceeds to borrowers and students. Provisions governing these processes are outlined in this chapter, §668, and §682. In §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* uses the term "disbursement" for lender activities and the term "delivery" for school activities.

At a school, the function of authorizing payment must be separated from delivering proceeds so that no office has responsibility for 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(c)(2)]

## 8.1 Managing Loan Funds

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 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."
  [§668.163(a)(2)(i)]

- 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.
  [§668.163(a)(2)(ii)]

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.
  [§668.163(a)(1)]

- 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.
  [§668.163(d)(1)(i)]

- Maintain accounting and internal control systems that identify the earnings on Title IV program funds maintained in the school's bank or investment account.
  [§668.163(d)(1)(ii)]

- Comply with the recordkeeping and reporting requirements in subpart B of the Student Assistance General Provisions of the federal regulations.
  [§668.163(b)(2)]

- Comply with applicable program regulations.
  [§668.163(b)(3)]

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 6.15.
[§668.163(b); §668.167(d)(3)(ii)]

## 8.2 Required Notices

The school is required to provide certain notices to the student and/or parent borrower regarding certain aspects of the loan process and characteristics of the loans themselves. The timing of these notices is generally prescribed in regulation to coincide with specific events related to loan delivery.

These required school notices may be made in hard copy or electronically. However, if the notices are made electronically, or if a school directs the student and/or parent borrower to a secure Website that contains the required notices, the individual must affirmatively consent to the use of an electronic record in a manner that reasonably demonstrates that the individual is able to access the information to be provided in an electronic form. The consent must be voluntary and based on accurate information about the transactions to be completed. These electronic processes must be made in accordance with the Electronic Signatures in Global and National Commerce Act (P. L. 106-229).
[DCLs GEN-01-06 and GEN-05-16]

### 8.2.A Initial Notice of Funds

Prior to delivering any Title IV funds to the student or parent borrower, the school is required to provide 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 Title IV program. Regulations require this notice (i.e., award letter) to be provided 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 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 loan(s) offered by responding to the school in writing or electronically, or to take action only if requesting a cancellation or reduction of the loan amount offered (see Subsection 8.2.B for confirmation requirements).

- In the case of proceeds available to certain Pell grant-eligible students or other Title IV-eligible students for necessary books and supplies, the school must describe how any Title IV credit balance funds will be made available to the student by the seventh day of the payment period for this purpose.
[§668.164(i)]

- 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.
[§668.165(a)(1); DCL GEN-98-25; DCL GEN-99-9]

### 8.2.B Confirmation Requirements for the Multi-Year Feature of the MPN

The school must ensure and document that a process is in place for confirming that the borrower accepts the loan amounts offered under the multi-year feature of the Master Promissory Note (MPN). The confirmation process may be part of, or may supplement existing required notices and disclosures described in this section and may be either passive or affirmative.

*Passive confirmation* 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. The school does not deliver loan funds until the time given to the borrower to respond has elapsed.

*Affirmative 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 provide written or electronic confirmation of the types and amounts of Title IV loans wanted for an award year before the school delivers those loan funds.
[§668.165(a); §682.401(d)(4)(vi); 10-11 FSA Handbook, Application and Verification Guide, Chapter 6, pp. AVG-112 to AVG-114, and Volume 4, Chapter 1, pp. 4-4 to 4-5]

## 8.2.C
## School's Notice of Credit to Student's Account

Except in the case of a post-withdrawal disbursement made as a result of the return of Title IV funds calculation (see Subsection 9.5.A), the school must notify the student or parent borrower if the school credits Stafford, Grad PLUS, or parent PLUS loan proceeds to the student's school account. If the school obtained affirmative confirmation of the borrower's acceptance of the loan amount offered (see Subsection 8.2.B), the notice must be issued no earlier than 30 days before and no later than 30 days after the school credits the student's account. If the school did not obtain affirmative confirmation of the borrower's acceptance of the loan amount offered, the notice must be issued no earlier than 30 days before and no later than 7 days after the school credits the student's account. The notice may be written or electronically transmitted and must include: [§668.165(a)(2) and (3)]

- The date and amount of the disbursement. [§668.165(a)(2)(i)]

- 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. [§668.165(a)(2)(ii)]

- 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. [§668.165(a)(2)(iii)]

See Subsection 8.2.D for more information about actions a school must take when a student or parent borrower notifies the school that he or she wishes to cancel all or a portion of the loan or loan disbursement.

## 8.2.D
## School's Notice of Borrower's Right to Cancel Loan Disbursed by EFT or Master Check

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 that a lender disburses to the school by EFT or master check. The school's notice of a student or parent borrower's right to cancel all or a portion of the loan is found in the school's notice of credit to the student's account. For more information about the content and timing of this notification, see Subsection 8.2.C.

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 borrower's cancellation request in either of the following time frames: [§668.165(a)(4)]

- If the school obtained affirmative confirmation of the borrower's acceptance of the loan amount offered (see Subsection 8.2.B), by the later of the first day of the payment period for which the funds are intended or 14 days after the date the school sends the notification advising the student or parent borrower of his or her right to cancel all or a portion of the loan. [§668.165(a)(4)(ii)(A)]

- If the school did not obtain affirmative confirmation of the borrower's acceptance of the loan amount offered, within 30 days after the date the school sends the notification advising the student or parent borrower of his or her right to cancel all or a portion of the loan. [§668.165(a)(4)(ii)(B)]

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

### Late Requests

If a student or parent borrower requests cancellation of the loan after the 30-day period, 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. [§668.165(a)(4)(iii)]

#### Funds Delivered prior to Request

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.

#### School Notice of Outcome

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)(5)]

## 8.2.E
## Notification of Late Disbursement or Post-Withdrawal Disbursement of Loan Funds

After determining the eligibility of the student for a late disbursement or post-withdrawal disbursement of loan funds, and prior to delivering the disbursement, the school must contact the borrower and obtain confirmation that the borrower still requires such funds. In making this contact, the school must explain the borrower's obligation to repay any funds that the school delivers. The school must document in the student's file the result of the contact and the final determination made concerning the late or post-withdrawal disbursement.
[HEA §484B(a)(4)(A); DCL GEN-06-05]

## 8.3
## Required 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. This authorization is obtained when the borrower signs the Federal Stafford Loan Master Promissory Note (Stafford MPN) or Federal PLUS Loan Application and Master Promissory Note (PLUS MPN).
  [§682.604(c)(3)]

- 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 8.7.I).
  [§668.164(d)(2)(i); §668.165(b)(1)(i)]

- Deliver Stafford or PLUS loan proceeds via a stored-value card.
  [DCL GEN-05-16]

- Hold a credit balance on behalf of the student or parent borrower, unless prohibited by the Department.
  [§668.165(b)(1)(ii)]

- Use Title IV funds for the current year to pay for minor, prior-year charges incurred for educationally related activities other than tuition, fees, room, and board. A school is not required to obtain a student's or parent borrower's authorization to use Title IV funds from the current year to pay minor, prior-year charges for tuition, fees, room, and board. The sum of all minor, prior-year charges for tuition, fees, room, board, and other educationally related activities that are paid with Title IV funds from the current year must not exceed $200. (See Subsection 8.7.I.)
  [§668.164(d)(2)(i) and (ii); §668.165(b)(1)(i)]

A school must obtain a parent PLUS borrower's written authorization to deliver parent PLUS loan funds directly to the student in addition to any other authorization it must obtain from the student (e.g., an authorization to deliver funds to the student's bank account or to the student's stored-value card).

When a school is providing a method for Pell grant-eligible students to obtain necessary books and supplies by the seventh day of classes, the Department considers that a student authorizes the use of Title IV aid at the time the student uses the method provided by the school. In this situation, the school need not collect an additional authorization from the student.
[§668.164(i)(iv)]

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

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.
[§668.165(b)(3) and (4)]

## 8.3.A
## 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)(4)(i)]

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.
[§668.165(b)(4)(ii)]

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 Figure 8-1.

## 8.3.B
## Authorization for Release of EFT/Master Check Disbursements

For 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 because the authorization is included on the MPN.
[DCL GEN-98-25; DCL GEN-99-9; DCL GEN-03-03]

## FFELP Written Notification/Authorization Requirements — Figure 8-1

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.
[§668.165(a)(1)]

| 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 [§668.164(d)(1)(i) through (iii); §668.165(a)(2)] | Yes[3] | No |
| Credit student's account for other educationally related costs (current year only) [§668.164(d)(2)(i)] | Yes[2,3] | Yes[2] |
| Deliver loan proceeds to borrower's personal bank account [§668.165(b)(1)] | No | No |
| Open a bank account on the borrower's behalf [§668.164(c)(1)(ii)] | Yes | Yes |
| Deliver loan proceeds to a borrower's stored-value card [§668.164(d)(2)(ii)] | Yes | Yes |
| Hold credit balance on behalf of the student or parent borrower for budgetary purposes [§668.165(b)(1)(ii)] | No | Yes[2] |
| Pay minor, prior-year charges for tuition, fees, room, and board [§668.164(d)(2)(i)] | No | No |
| Pay minor, prior-year charges for educationally related activities other than tuition, fees, room, and board [§668.164(d)(2)(ii)] | No | Yes |

1 The required authorization is included on the MPN. However, if the MPN is signed by a third party with power of attorney for the borrower, the school must obtain a separate authorization from the borrower.

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 within a specific time frame after the date the school credits the student's account with loan proceeds (see Subsection 8.2.C). 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.

# 8.4
# Assessing Satisfactory Academic Progress

A school must measure a student's satisfactory academic progress (SAP) in accordance with the school's published SAP policy before disbursing Title IV aid. The school's SAP policy for Title IV programs must meet all of the following criteria:

- It must be at least as strict as the policy the school applies to a student who is not receiving Title IV aid.
- It must provide for consistent application of standards for all students within categories of students (e.g., full-time, part-time, undergraduate, or graduate students), and educational programs.
- At a minimum, SAP must be evaluated:
  - At the end of each payment period if the educational program is one academic year in length or less; or
  - At least annually to correspond with the end of a payment period if the educational program is more than one academic year in length.

[§668.32(f); §668.34(a)(1) – (3)]

A school's SAP standards must be applied consistently, and must include both a qualitative and a quantitative measure.

*Qualitative Measure*

A school's policy must specify the grade point average (GPA), or comparable assessment measured against a norm, that a student must achieve at each evaluation. If the educational program is more than two academic years, the student must have a GPA of at least a "C" or its equivalent, or have academic standing consistent with the school's requirements for graduation at the end of the second academic year of the educational program.
[§668.34(a)(4)]

*Quantitative Measure*

A school's policy must specify the pace at which a student must progress through his or her educational program to ensure that the student will complete the program within the maximum permissible timeframe. Pace is calculated by dividing the total number of hours the student has successfully completed by the total number of hours the student has attempted. Remedial courses do not have to be included in the pace calculation. 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 at each SAP evaluation. A school may establish its own maximum time frame for program completion, provided the school's time frame for an undergraduate program does not exceed 150% of the published program length.
[§668.16(e); §668.34(a)(5)]

The school's policy must describe how a student's GPA and pace of completion are affected by course incompletes, withdrawals, repetitions, or transfers of credits from other schools. Transfer credits that are accepted toward the student's current educational program must be counted as both attempted and completed hours.
[§668.34(a)(6)]

### Financial Aid Warning and Financial Aid Probation

Rules regarding financial aid warning and financial aid probation vary depending on whether the school evaluates SAP at the end of each payment period or less frequently.

*Schools that evaluate SAP at the End of Each Payment Period*

A school that evaluates SAP at the end of each payment period has the option of placing a student on financial aid warning for one payment period, or placing the student on financial aid probation following a successful appeal. The school's SAP policy must explain the use of these statuses, and the statuses must be applied consistently and in compliance with federal regulations as explained in the following paragraphs.

A school that evaluates SAP at the end of each payment period—including a summer term—may disburse Title IV aid to a student who is not meeting SAP requirements as follows:

- For the next payment period in which the student is enrolled following the payment period in which the student did not make satisfactory academic progress, the school may:
  - Place the student on financial aid warning and disburse Title IV aid to the student. Financial aid warning does not require an appeal or any other action on the part of the student.
  - Place the student directly on financial aid probation—following the required procedures for financial aid probation as outlined in the following bullet—and disburse Title IV aid to the student.

- For the next payment period in which the student is enrolled following a payment period in which the student was on financial aid warning, the school may place the student on financial aid probation, if all of the following criteria are met:

  – The school evaluates the student's progress and determines that the student did not comply with SAP requirements by the end of the payment period when the student was on financial aid warning.

  – The student successfully appeals the determination (See information under "Student Appeals" later in this section).

  – The school determines that the student should be able to meet the school's SAP standards during and at the end of the subsequent payment period, or the school develops an academic plan that, if followed, will ensure that the student is able to meet the school's SAP standards by a specific point in time.

A student on financial aid probation for one payment period may not receive Title IV aid for the subsequent payment period unless the student complies with SAP standards or the school determines that the student complied with the requirements of an academic plan developed by the school. [§668.34(a)(8); §668.34(c)]

*Schools that Evaluate SAP Annually or Less Frequently than at the End of Each Payment Period*

A school that evaluates SAP annually or less frequently than at the end of each payment period does not have the option of placing a student on financial aid warning for one payment period. However, a student may be placed on financial aid probation, and the school may disburse Title IV aid to the student for the next payment period in which the student is enrolled, if all of the following criteria are met:

- The school evaluates the student's progress and determines that the student is not meeting SAP requirements.

- The student successfully appeals the determination (See information under "Student Appeals" later in this section).

- The school determines that the student should be able to meet the school's SAP standards by the end of the subsequent payment period or the school develops an academic plan that, if followed, will ensure that the student is able to meet the school's SAP standards by a specific point in time.

A student on financial aid probation for one payment period may not receive Title IV aid for the subsequent payment period unless the student complies with SAP standards or the school determines that the student complied with the requirements of an academic plan developed by the school. [§668.34(a)(8)(ii); §668.34(d)]

### Student Appeals

If a school allows a student to appeal its determination that the student is not complying with SAP requirements, the school's appeal policy must include each of the following:

- What the student must do to reestablish his or her Title IV eligibility.

- The circumstances under which the student may file an appeal (i.e., death of a relative, injury or illness of the student, or other special circumstances).

- Information the student must submit explaining why the student failed to comply with SAP requirements, and what has changed in the student's situation that will allow the student to comply with SAP requirements at the next evaluation.

If a school does not allow a student to appeal its determination that the student is not complying with SAP requirements, the policy must describe how the student may reestablish Title IV eligibility.

### Loss of Title IV Eligibility

Except in the case of a student who is placed on *financial aid warning* or *financial aid probation,* a student who is not meeting the school's qualitative or quantitative measures at the time of any evaluation is not eligible to receive additional Title IV aid.
[§668.34(a)(7)]

### Notification

A school's SAP policy must provide for notification to a student of the results of an evaluation that impacts the student's eligibility for Title IV aid. If the school does not permit a student to appeal a determination that he or she is

not making SAP, the policy must describe how the student may reestablish his or her eligibility to receive Title IV aid. If the school permits a student to appeal a determination that he or she is not making SAP, the policy must describe how the student may reestablish his or her Title IV eligibility; the basis on which a student may file an appeal; information the student must submit regarding why the student failed to make SAP; and what has changed in the student's situation that will allow the student to demonstrate SAP at the next evaluation.
[§668.34(a)(9) – (11)]

*Definitions applicable to SAP*

In the context of SAP provisions, the following definitions apply:

- An *appeal* is a process by which a student who is not meeting the school's SAP standards petitions the school for reconsideration of the student's eligibility for Title IV aid.

- *Financial aid probation* is a status assigned by a school to a student who fails to make SAP, has appealed, and has had eligibility for aid reinstated.

- *Financial aid warning* is a status assigned to a student who fails to make SAP at a school that evaluates SAP at the end of each payment period.

- Maximum timeframe is:

  – For an undergraduate program measured in credit hours, a period that is no longer than 150 percent of the published length of the educational program, as measured in credit hours;

  – For an undergraduate program measured in clock hours, a period that is no longer than 150 percent of the published length of the educational program, as measured by the cumulative number of clock hours the student is required to complete and expressed in calendar time; and

  – For a graduate program, a period defined by the institution that is based on the length of the educational program.

  [§668.34(b)]

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

## 8.5 Completing Verification

The school may not deliver loan proceeds before the verification process is complete, if verification is required (see Subsection 6.6.A). 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.
[§668.58(c); §668.60(b)(1)(D) and (b)(3)]

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

## 8.6 Managing Overawards

An overaward occurs when a student receives need-based aid in excess of his or her financial need or when a student's estimated financial assistance (EFA) exceeds his or her cost of attendance (COA). This often happens when a student's expected family contribution (EFC) increases, or a student receives additional financial assistance after the initial awarding process such as non-Title IV funds (e.g., a scholarship or a private education loan). Either of these situations may result in a reduction of the student's eligibility for any previously certified Stafford or Grad PLUS loan. If a school determines that an overaward of loan funds occurs, it must contact the lender or guarantor promptly to request an adjustment to the amount of any remaining loan disbursement. If the school has delivered all loan disbursements to the student before the overaward occurs, the school is not required to adjust the disbursement(s). If the student has been awarded a FFELP or Direct loan and Federal Work-Study, a $300 tolerance can be applied to reduce the overaward. Also note that to resolve an overaward, the school may be required to adjust campus-based or other aid under its control. However, a school never adjusts a Pell grant to take into account other forms of aid.
[§682.604(h); §685.303(e); 09-10 FSA Handbook, Volume 5, Chapter 1, p. 5-3]

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 education loan to cover the EFC, if not already done.
  [§682.604(h)(1); §685.303(e)(1)]

- 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.
  [§682.604(h)(2)(i) and (ii)]

- 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)(3)]

▲ Schools may contact individual guarantors for more information on procedures for reducing or eliminating overawards. See Section 1.5 for contact information.

## 8.7 Delivering Loan Funds at Eligible Schools

The school must hold Stafford and PLUS loan proceeds until the student is enrolled in classes for the applicable payment period. (For more information on payment periods, see Section 6.3.) 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 (see Subsection 7.7.B, subheading "Exceptions to Multiple Disbursement Requirements").
[§668.164(b)(1); §682.604(c)(1), (6), and (7)]

A school must ensure that it does not deliver the proceeds of a Stafford loan or a Grad PLUS 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 also must ensure that it does not deliver the proceeds of a parent 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.

A school must not deliver any new loan funds to a borrower whose prior Title IV loan(s) is conditionally discharged or in a post-discharge monitoring period based on a determination that the borrower is totally and permanently disabled until it confirms that the discharged loan(s) has been returned to repayment.

Generally, a school may deliver the proceeds of any loan disbursement only if it determines that the student has maintained continuous eligibility for the loan period certified by the school. See Subsections 8.7.E (Late Delivery), 8.7.G (Delivery to Borrowers in Special Circumstances, subheading "Temporary Change in Enrollment Status" and 8.11.A (Exceptions to Delivery Restrictions at Ineligible Schools) for exceptions to this general rule.
[§668.164(b)(3); §682.604(b)(2)(i), (iii) and (iv); §685.303(d)]

Figure 8-3 illustrates a school's required activities before delivering a FFELP loan.

### 8.7.A Delivery Time Frames

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 electronic funds transfer (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 deliver funds during this period only 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]

#### Initial Period Activities

For Stafford or PLUS loan proceeds disbursed by EFT or master check, the school must do one of the following:

- Deliver the loan proceeds directly to the student or parent borrower within the initial period of 3 business days after the school's receipt of the loan proceeds. [§668.167(b)(1)(ii)]

- Credit the student's account within the initial period of 3 business days after the school's receipt of the loan proceeds and deliver directly to the student or parent borrower the remaining loan proceeds in accordance with the time frames specified in Subsection 8.8.A. [§668.164(a) and (e); §682.604(c)(2)(i)]

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.
[§668.167(b)(1)(iii); §682.604(c)(2)(i)]

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.
[§682.604(c)(2)(ii)(A)]

- 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.
[§682.604(c)(2)(ii)(B)]

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, Section 6.15.
[§668.167(c)(2)]

#### Conditional and Return Period Activities

The school is expected to deliver the loan proceeds within the initial period. 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 National Student Loan Data System [NSLDS] information) is missing.
[§668.167(c)(1)]

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.
[§668.167(b)(2)]

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]

Figure 8-2 provides examples of time frames for returning loan proceeds to the lender.

## Examples of Time Frames for Delivering and Returning Loan Proceeds — Figure 8-2

| | Example 1 | Example 2 | Example 3 | Example 4 |
|---|---|---|---|---|
| *Receipt of loan proceeds* | School receives loan proceeds by individual check on July 5, 2005. | School receives loan proceeds by EFT or master check on July 5, 2005. | School receives loan proceeds by individual check on July 5, 2005. | School receives loan proceeds by EFT or master check on July 5, 2005. |
| *Latest initial delivery date* | Latest initial delivery date in this case is August 4, 2005 (30 days after receipt). [§668.167(b)(1)(iii); §682.604(c)(2)(i)] | Latest initial delivery date in this case is July 8, 2005 (3 business days after receipt). [§668.167(b)(1)(ii)] | Latest initial delivery date in this case is August 4, 2005 (30 days after receipt). [§668.167(b)(1)(iii); §682.604(c)(2)(i)] | Latest initial delivery date in this case is July 8, 2005 (3 business days after receipt). [§668.167(b)(1)(ii)] |
| | | | Student does not meet eligibility requirements. | Student does not meet eligibility requirements. |
| | | | School delays delivery of loan proceeds for conditional period or 10 business days because the school expects the 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 18, 2005. [§668.167(c)(1)] | School delays delivery of loan proceeds for conditional period or 10 business days because the school expects the 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 July 22, 2005. [§668.167(c)(1)] |
| *Reason for returning loan proceeds* | Student advises school that he or she does not want the loan proceeds. | Student advises school that he or she does not want the loan proceeds. | Student fails to meet eligibility requirements in the conditional 10-business-day period. | Student fails to meet eligibility requirements in the conditional 10-business-day period. |
| *Deadline for returning loan proceeds* | School must return loan proceeds no later than August 18, 2005 (10 business days after latest initial delivery date). [§668.167(b)(2)] | School must return loan proceeds no later than July 22, 2005 (10 business days after latest initial delivery date). [§668.167(b)(2)] | School must return loan proceeds no later than September 1, 2005 (10 business days after last day of the conditional period). [§668.167(b)(2)] | School must return loan proceeds no later than August 5, 2005 (10 business days after last day of the conditional period). [§668.167(b)(2)] |
| | | | 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. [§668.167(b)(3)] | 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. [§668.167(b)(3)] |

# 8.7.B
# Delivering Second and Subsequent Disbursements

Generally, time frames for issuing second or subsequent disbursements are dictated by the loan period and the school's methods for measuring the student's academic progress.
[§682.604(c)(6) and (7)]

The earliest delivery dates below for a second and subsequent disbursement may not apply to a student enrolled in a credit-hour program offered in modules. See Subsection 8.7.F for more information.

### One Payment Period

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 in the following types of programs:
  - A standard term-based, credit-hour program.
  - A nonstandard term-based, credit-hour program in which all of the terms are at least nine weeks and substantially equal in length.
- The date the student successfully completes half of the credit or clock hours (or half of the academic coursework) *and* half of the weeks of instructional time in the loan period in the following types of programs:
  - A nonstandard term-based, credit-hour program that does not have substantially equal terms.
  - A nonstandard term-based, credit-hour program that has terms substantially equal in length, but are not all at least nine weeks in length.
  - A non-term-based, credit-hour program.
  - A clock-hour program.

[§682.604(c)(6)(ii)]

### Credit Hours—Standard or Substantially Equal Terms

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 a standard semester, trimester, or quarter system, or for programs that do not use a standard semester, trimester, or quarter system but that use terms that are substantially equal in length for a loan period.

Terms are substantially equal in length if no term within the loan period is more than two weeks longer than any other term in that loan period.
[§682.603(f)(1)(i)(A); §682.604(c)(6)(i)]

### Clock-Hour Programs or Credit-Hour Programs With No Terms or Unequal Terms

The school may not deliver a second or subsequent disbursement for an eligible program that measures academic progress in clock hours, or measures academic progress in credit hours and either does not use terms, or does not use terms that are substantially equal in length for a loan period, until the later of:

- The date the student successfully completes half of the credit or clock hours in the loan period.
  [§682.604(c)(6)(ii)(B)]
- The date the student successfully completes one half of the number of weeks of instructional time in the loan period.
  [§682.604(c)(6)(i) and (ii)]

### Clock Hours

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.
  [§682.604(c)(8)(i)]
- The date the student completes one half of the clock hours in the loan period.
  [§668.164(f); §682.604(c)(8)(ii)]

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. [§668.164(b)(3)(ii)(A)]
- 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. [§668.164(b)(3)(ii)(B)]
- 10% of the clock hours in the payment period. [§668.164(b)(3)(ii)(C)]

## 8.7.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 (SAP). [§668.164(f)]

### Credit-Hour Programs Using Standard Terms

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 parent PLUS loan, is 10 days before the first day of the payment period. [§668.164(f)(1)]

### Clock-Hour and Nonstandard Term-Based Programs

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 parent PLUS loan, is the later of:

- 10 days before the first day of the payment period. [§668.164(f)(2)(i)]
- The date the student completes the previous payment period for which the student received FFELP proceeds. [§668.164(f)(2)(ii)]

See Figure 8-4 for information on the earliest dates that loan funds may be disbursed and delivered. Refer to Subsection 8.7.B for additional provisions related to second or subsequent disbursements. See Subsection 8.7.F for more information about special delivery rules that apply to a student who is enrolled in a credit-hour program offered in modules.

### Applying Estimated Amounts

When a school credits an estimated amount of school funds to a student's account in advance of the receipt of FFELP proceeds, and this occurs earlier than 10 days before the first day of the payment period, the Department considers 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)]

### Provisions for Necessary Books and Supplies

A school must provide certain Pell grant-eligible students with a method to obtain or purchase necessary books and supplies required for the payment period. A school must ensure that the student has access to those funds or to the necessary books and supplies no later than the seventh day of the payment period. A school must provide this access to funds if all of the following criteria apply:

- The student is eligible for Pell grant funds.
- The school could disburse funds 10 days prior to the start of the payment period for that student.
- A credit balance would be created by the disbursement of all funds for which the student was eligible 10 days prior to the start of the payment period. This does not include the following:
  - The amount of a Stafford loan disbursement that is subject to a 30-day delay, because the school may not disburse those funds 10 days before the start of that student's payment period.

- Aid that has not yet been awarded to a student at least 10 days before the start of classes because the student missed a financial aid deadline date.

- Aid to a student who had not completed the verification process, had an unresolved "C" code on the SAR and ISIR, or had unresolved conflicting information, 10 days prior to the payment period.

[§668.164(i)]

The school must make a single method available to eligible students and may provide an alternative method by which a students may obtain necessary books and supplies if the student opts out of the school's preferred method. A school has several options for providing its students with a method to obtain the necessary books and supplies, for example, cash or check; stored-value card or bookstore voucher; or, a short-term loan.

When two eligible schools have a consortium agreement, the payment period of the school that pays the funds dictates the timing of the student's ability to obtain the necessary books and supplies. If the "home" school pays the funds, then the student must be able to purchase the necessary books and supplies by the seventh day of the payment period of the home school; if the "host" school pays the funds, then the student must be able to purchase the necessary books and supplies by the seventh day of the payment period at the host school.

Although this is a requirement for Pell grant-eligible students, a school may use the same process to make funds for necessary books and supplies available to all of its Title IV-eligible students.
[§668.164(i); *Federal Register* dated October 29, 2010, pp. 66929-66931]

## 8.7.D Delayed Delivery

Unless a school qualifies for an exemption (see the following paragraphs), the 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, an undergraduate student who is enrolled in the first year of a program of study and who has not previously received a Stafford [FFELP or Direct] or SLS loan) until the student completes the first 30 days of his or her program of study. 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.

Note: A school must provide certain Pell grant-eligible students with Title IV credit balance funds to obtain or purchase necessary books and supplies. For this purpose, a school may not consider a first disbursement of Stafford loan funds as funds for which the student would have been eligible 10 days prior to the start of the payment period if the student is subject to the federal 30-day delayed delivery provisions.
[HEA §428G(b)(1);§668.164(f)(3); §668.164(i); §682.604(c)(5); §685.303(b)(4)(i)(A)(1) and (2)]

See Figure 8-4 for information on the earliest dates that loan funds may be disbursed and delivered.

### Low Cohort Default Rate Exemptions

A school is not required to delay the delivery of the first disbursement of a Stafford loan made to a first-year undergraduate student who is a first-time borrower in the following cases:

- For a loan first disbursed on or after October 1, 2011, the school's official cohort default rate is less than 15% for each of the three most recent fiscal years for which data are available.
  [HEA §428G(b)(2); §685.303(b)(4)(i)(A)*(2)*]

- The school at which a student will receive course credit in a study-abroad program has an official cohort default rate that is less than 5% for the most recent fiscal year for which data are available.

A school may begin certifying loans based on these exemptions when it receives from the Department its official cohort default rate notification letter (see Section 16.1), or notification of a successful adjustment or appeal. The school must cease certifying loans based upon these exemptions no later than 30 days after the date it receives notification from the Department of an official cohort default rate that causes the school to no longer meet the necessary qualifications for an exemption.
[HEA §428G(b)(1) and (e); §682.603(i)(2); §682.604(c)(5); §685.303(b)(4)(i)(A); *Cohort Default Rate Guide*]

#### Applying Estimated Amounts

When a school credits an estimated amount of school funds to a student's account in advance of the receipt of FFELP proceeds, and this occurs earlier than the 31st day of the first payment period, the Department considers 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)]

## 8.7.E Late Delivery

After the end of the loan period or the date on which a student ceases to be enrolled at least half time, a student borrower, or in the case of a parent PLUS loan, a parent borrower, may be eligible to receive a late delivery of Stafford or PLUS loan funds, provided certain conditions are met (see subheading "Conditions for Late Delivery" later in this subsection).

A school must offer a late delivery of Stafford or PLUS loan funds that the borrower was eligible to receive while the student was still enrolled during a payment period or period of enrollment that the student successfully completed. The school may credit the student's account to pay for current and allowable charges as described in Section 8.7, but must pay or offer any remaining amount to the borrower.
[§668.164(g)(3)(ii)]

If a student ceases to be enrolled at least half time but does not withdraw, a school may, but is not required to, offer a late delivery of Stafford or PLUS loan funds to the student or parent borrower to pay for educational costs the student incurred for the period in which the student was eligible.
[§668.164(g)(3)(iii)]

#### Conditions for Late Delivery

Before making a late delivery of Stafford or PLUS loan funds, a school must ensure that:

- The school certified the loan 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.
  [§668.164(g)(2)(ii); §682.207(f)(1)]

- Except in the case of a parent PLUS loan, the Department processed a Student Aid Report (SAR) or an Institutional Student Information Record (ISIR) with an official expected family contribution (EFC) before the date the student became ineligible.
  [§668.164(g)(2)(i)]

- In the case of a first-year, first-time borrower whose loan is subject to delayed delivery (see Subsection 8.7.D), the student completed the first 30 days of his or her program of study.
  [§668.164(g)(4)(iii); §682.207(f)(2)]

- 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.
  [§668.164(g)(4)(ii); §682.207(f)(3)]

- 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 loan funds no later than 180 days after the school determines the student withdrew (for additional information on post-withdrawal disbursements, see Subsection 9.5.A; for additional information on required notices, see Subsection 8.2.E), or, if the student did not withdraw, 180 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)(4)(i)]

The borrower is not required to sign the Master Promissory Note (MPN) prior to the end of the loan period or the date on which the student ceased to be enrolled at least half time (or lost eligibility for a reason other than a withdrawal) to be eligible for a late delivery of Stafford or PLUS loan funds, as applicable. However, the borrower must sign the MPN before a lender may make a late disbursement.
[DCL GEN-05-16]

#### Disbursements Exceed Loan Eligibility

If the total amount of the late disbursement and all prior disbursements exceeds the student's loan eligibility for the period in which the student was enrolled and eligible, as determined by the financial aid administrator (FAA), 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 student was enrolled and eligible.
  [§682.604(e)(2)(i)]

- The amount of loan funds the student or parent borrower is eligible to receive for that loan period or payment period.
  [§682.604(e)(2)(ii)]

See Subsection 8.7.F for information about conditions for late delivery to a student enrolled in a credit-hour program offered in modules. For information on late disbursement requirements for lenders, see Subsection 7.7.G. For information on preventing overawards, see Subsection 6.15.A.

## 8.7.F
## Delivery in Credit-Hour Programs Offered in Modules

When a student is enrolled in a credit-hour program offered in modules (see Subsection 6.3.A) but the student will not attend the first module in a payment period, the date the school uses to determine when Stafford or PLUS loan funds may be delivered is the starting date of the first module in the payment period that the school expects the student to attend. For example, the earliest that a school may deliver loan funds to a student who begins enrollment in the second of three 5-week modules that comprise a payment period is 10 days prior to the first day of the second module (or the 31st day of the second module for a Stafford loan that the school certifies for a borrower who is subject to delayed delivery).
[10-11 FSA Handbook, Volume 3, Chapter 1, p. 3-21]

A borrower subject to delayed delivery (see Subsection 8.7.D) who is enrolled in a module that is less than 30 days in length is not eligible to receive Stafford loan funds until the student completes the first 30 days of his or her program of study. This may result in the school delivering the funds during a subsequent module or, in the case of a term-based program offered in modules, during the next full term.

If the loan period for a Stafford or PLUS loan consists of one payment period and does not qualify for a multiple disbursement exemption (see Subsection 6.4.A), the school must deliver the second disbursement no earlier than the *later of* the calendar midpoint between the first and last scheduled days of class of the loan period, or the first day of the first subsequent module that the student will actually attend, in the following types of programs:

- A standard term-based, credit-hour program.

- A nonstandard term-based, credit-hour program in which all of the terms are at least 9 weeks and substantially equal in length.

A school must ensure that it does not deliver the proceeds of a Stafford loan, a parent PLUS loan, or a Grad PLUS loan to a student who has lost his or her eligibility to receive the loan. If a student enrolled in a term-based credit-hour program offered in modules has not received the first disbursement of a Stafford or PLUS loan and the student drops to less-than-half-time enrollment or withdraws before beginning attendance on at least a half-time basis, the school must not make a late delivery, or as applicable, a post-withdrawal disbursement of loan funds to the student.
[10-11 FSA Handbook, Volume 5, Chapter 2, p. 5-79]

If a student withdraws from a term-based, credit-hour program offered in modules during a payment period or, as applicable, period of enrollment, and resumes enrollment in the same program before the end of the period, the school must determine the student's eligibility for Title IV aid that was previously returned or canceled as the result of the student's withdrawal. Certain restrictions apply. See Subsection 8.7.G for more information.

## 8.7.G
## Delivery to Borrowers in Special Circumstances

A school may be restricted from delivering funds to a student under certain circumstances or until such circumstances are resolved. This subsection details the actions a school must take in each of those situations.

### Leaves of Absence

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 9.3.
[§668.167(b); §682.604(c)(4)]

### Bankruptcy

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 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.

### Temporary Change in Enrollment Status

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.
  [§682.604(b)(2)(iv)(A); §685.303(b)(2)(iv)(A)]

- The student's revised cost of attendance (COA), if applicable. (If the student is returning to a program offered in modules, see subheading "Withdrawal and Return to a Program Offered in Modules" below to determine if the school must revise the student's COA.)
  [§682.604(b)(2)(iv)(B); §685.303(b)(2)(iv)(B)]

- That the student continues to qualify for the entire award amount, notwithstanding any reduction in the student's COA caused by the student's temporary cessation of enrollment.
  [§682.604(b)(2)(iv)(C); §685.303(b)(2)(iv)(C)]

### Withdrawal and Return to a Program Offered in Modules

If a student withdraws from a program offered in modules (see the Glossary definition of "module") during a payment period or, as applicable, period of enrollment, the school must determine the student's eligibility to receive Title IV aid for which he or she was eligible prior to the student's withdrawal based on the applicable criteria:

- For a term-based credit-hour program, the student resumes enrollment in the same program before the end of the payment period or period of enrollment.

- For a clock-hour program or a non-term-based credit-hour program, the student resumes enrollment within 180 days.

The student is eligible to receive Title IV aid that the school or the student returned as the result of the return of Title IV funds calculation, and any Title IV aid that the school canceled due to the student's withdrawal, if the school determines and documents the student's eligibility—and makes any required adjustments—based on both of the following:

- The student's enrollment status upon his or her return to the program.

- If applicable, the student's revised cost of attendance (COA), taking into account any reduction in the COA caused by the student's temporary cessation of attendance.

[§668.22(a)(2)(iii)(A); *Federal Register* dated October 29, 2010, p. 66894]

For a term-based program of study offered in modules, if the student withdraws and misses only a portion of a module or modules during a term, but re-enters within that period of enrollment or payment period, the school is not required to recalculate the student's award based on the student's attendance in only a portion of a module. The school must restore the student's original award and is not required to adjust any award based on the student's attendance in only part of a module. If, however, the student withdraws and does not attend any portion of a module for which he or she was originally scheduled, the school must re-evaluate the student's COA based on the omitted module(s) and adjust the Title IV aid based on any applicable change in eligibility prior to awarding additional funds.
[DCL GEN-11-14, Q&A #8]

See Section 9.4 for more information about determining the withdrawal date in a program that is offered in modules.

### Unverified Social Security Number

If the Social Security number (SSN) 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 student's SSN is correct. If the student fails to verify the SSN within the delivery time

frames in Subsection 8.7.A, the school must return to the lender the affected FFELP loan disbursements for the student.
[§668.36]

## 8.7.H Delivery to Transfer Students

A Stafford or PLUS loan may be used only to cover the cost of attendance (COA) at the school that certifies the borrower's eligibility for the loan. If a student transfers between schools, both the student's COA and estimated financial assistance (EFA) may change substantially at the new school, and the change could affect the borrower's eligibility for the loan. Under these circumstances, unless the borrower is eligible for a late disbursement or a post-withdrawal disbursement, neither the student nor the parent borrower is eligible to receive the undisbursed loan funds that were guaranteed for the student's attendance at the previous school. The student or parent borrower seeking additional Stafford or PLUS loan funds must reapply at the new school. For information on post-withdrawal disbursements, see Subsection 9.5.A. For information on late disbursements, see Subsection 7.7.G.

The school may not deliver Stafford or PLUS loan proceeds to a student or parent of a student who previously attended another eligible school until the school the student is attending determines, from information obtained through the National Student Loan Data System (NSLDS) or its successor system, all of the following:

- The student is not in default on any Title IV program loan.
  [§668.19(a)(1)]

- The student does not owe an overpayment on any Title IV program grant or Federal Perkins loan.
  [§668.19(a)(2)]

- For the award year for which a Federal Pell grant or a TEACH grant is requested, the student's scheduled Federal Pell grant or TEACH grant award and the amount of any Pell grant or TEACH grant funds already delivered to the student.
  [§668.19(a)(3)]

- The outstanding principal balance of loans made to the student under each of the Title IV loan programs.
  [§668.19(a)(4)]

- The amount of, and loan period for, loans made to the student under each of the Title IV loan programs for the academic year for which Title IV aid is requested.
  [§668.19(a)(5)]

For a student who transfers from one school to another during the same award year (i.e., a current-year transfer student), the school to which the student transfers must request or access from the NSLDS updated information about that student in order to determine the student's eligibility for Stafford or PLUS loan proceeds. The school must wait for 7 days following its request to the NSLDS. However, if, before the end of the 7-day period, the school receives the information from the NSLDS in response to its request or obtains that information itself by directly accessing the NSLDS, the school may deliver the loan proceeds as long as the student is otherwise eligible. A school is not required to respond to a request for a paper financial aid transcript.
[§668.19(b)(1) and (2)]

## 8.7.I 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.
  [§668.164(d)]

- Paying the student or parent borrower directly.

### Crediting the Student's Account

A school may credit a student's account with Title IV funds to satisfy the following charges without obtaining the student or parent borrower's authorization:

- Current-year or minor, prior-year charges for tuition and fees.
  [§668.164(d)(1)(i); §668.164(d)(2)(i)]

- Current-year or minor, prior-year charges for room and/or board, if the student contracts with the school for room and/or board.
  [§668.164(d)(1)(ii) and (iii); §668.164(d)(2)(i)]

After obtaining written authorization from the student, or the parent borrower in the case of a parent PLUS loan, a school may credit a student's account with Title IV funds to pay the following charges:

- Additional current-year charges incurred for educationally related activities other than tuition, fees, room, and board.
  [§668.164(d)(1)(iv)]

- Minor, prior-year charges incurred for educationally related activities other than tuition, fees, room, and board.
  [§668.164(d)(2)(ii)]

*Allocating Charges to the Current and Prior Years*

The sum of all minor, prior-year charges for tuition, fees, room, board, and other authorized charges that are paid with Title IV funds from the current year must not exceed $200.

For the purpose of determining whether a school may pay minor, prior-year charges with Title IV funds from the current year, the costs of education and other services that a school provides to a student are associated with the "year" for which they are provided.

If a student's financial aid package includes a FFELP or Direct loan, the "year" is the loan period. "Current-year" charges are defined as charges for tuition, fees, room, board, and other authorized charges the school assessed for the current loan period. "Prior-year" charges are defined as those charges assessed for any loan period that precedes the current loan period.

If the student's financial aid package does not have a FFELP or Direct loan, the "year" is the award year, and costs for the current year are defined as charges for education and other services provided during the current award year.

If the student's program of study is more than one academic year in length and the school charges the total costs of that program of study at the beginning of the program, then the school must apportion the program's total charges to each applicable "year" (i.e., each loan period or award year, as appropriate) to determine what, if any, minor, prior-year charges may be paid with current-year Title IV funds. The school must allocate charges to each year or portion of a year based on the education and other services the school provides to the student during the period of time associated with each year or portion of a year. This apportionment determines the amount of charges applicable to the current and prior years. Charges for books, equipment, supplies, or other materials could be allocated on a pro rata basis, or alternatively, could be allocated to the period in which the school requires the student to purchase them. The school must also use the portion of the program's total charges that it allocates to each "year" for the purpose of determining whether the student has a credit balance of Title IV funds (see Section 8.8).

The allocation of charges for the purposes of paying minor prior-year charges and determining when a credit balance has been created on the student's account does not modify the calculation of cost of attendance for determining a student's aid package, nor does it modify the return of Title IV funds calculation. For more information on calculating the cost of attendance, see Section 6.5. For more information on the treatment of institutional costs in the return of Title IV funds calculation, see Subsection 9.5.A. [§668.164(d)(2) and (e); DCL GEN-09-11; 10-11 FSA Handbook, Volume 4, Chapter 1, pp. 4-10 to 4-13]

For more information on required authorizations, see Section 8.3.

### Direct Delivery to a Borrower

The school may choose to use any of the following methods to pay the student or parent borrower directly:

- 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 student that it is available for immediate pickup at a specified location at the school.
  [§668.164(c)(1)(ii)]

- Releasing or mailing to the borrower a check that has been provided by a lender.
  [§668.164(c)(1)(i)]

- Initiating an electronic funds transfer (EFT) to a bank account designated by the student or parent borrower. The bank account must be insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Share Insurance Fund (NCUSIF).
  [§668.164(c)(1)(iii), (2), and (3)]

- Issuing a stored-value card to the student, in which case the school must obtain authorization from the student or parent borrower, as applicable. If a bank account underlies a stored-value card, the bank account must be insured by the FDIC or the NCUSIF.
  [§668.164(c)(2) and (3)]

- Dispensing cash for which a school obtains a signed receipt from the student or parent borrower. [§668.164(c)(1)(iv)]

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 student. See Subsection 8.8.B for information regarding the requirements for paying a borrower by issuing a check or stored-value card, or by EFT to a designated bank account. See Subsection 8.9.A for information regarding the return requirements when a direct delivery attempt fails.

## 8.8 Managing Credit Balances

A Title IV credit balance is created when a school credits Title IV funds to a student's school account and the total amount of funds credited to the account exceeds the amount of tuition and fees, contracted room and board, and other authorized charges allocated to the current loan period or award year, as appropriate. See Section 8.3 for information about required authorizations. See Subsection 8.7.I for a description of what constitutes authorized charges and allocating charges to the current year. See Subsection 8.7.C subheading "Provisions for Necessary Books and Supplies" for more information on managing Title IV credit balances. [§668.164(e); §668.164(i); DCL GEN-09-11; 10-11 FSA Handbook, Volume 4, Chapter 1, pp. 4-10 to 4-13]

## 8.8.A Timeframes for Paying Credit Balances

Any time the delivery of Title IV funds creates a credit balance, 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. [§668.164(e)(2)]

- The date the credit balance occurs if the credit balance occurs after the first day of the payment period. [§668.164(e)(1)]

- 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. [§668.165(b)(4)(iii)]

Figure 8-5 illustrates the time frames related to the delivery of credit balances.

## 8.8.B How to Pay Credit Balances

A school may pay a credit balance to a student, or a parent in the case of a PLUS loan, by issuing a check to the student or parent. A school issues a check on the date that it does one of the following:

- Mails the check to the student or parent.

- Notifies the student that the check is available for immediate pickup and provides the specific location at the school that the student may pick up the check.

If the school notifies the student that the check is available to be picked up, and the student does not pick up the check within 21 days of the date of that notification, the school must immediately mail the check to the borrower, initiate an electronic funds transfer (EFT) of those funds to the borrower's bank account, or return the funds to the lender. [§668.164(c)(1)(ii)]

### Payment to a Borrower's Bank Account

A school may pay a credit balance by initiating an EFT to a bank account designated by the student or parent borrower. The bank account must be insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Share Insurance Fund (NCUSIF) and may be a checking, savings, or similar account that underlies a stored-value card or other transaction device. A school may establish a policy that requires its borrowers to provide bank account information or open an account at a bank of their choosing as long as this does not delay the disbursement of Title IV program funds. If the borrower does not comply with the policy, the school must deliver the funds to the borrower using another method in accordance with required timeframes.
[§668.164(c)(2) and (3)]

If a school opens a bank account on behalf of a borrower, establishes a process that the student or parent follows to open a bank account, or similarly assists the student or parent in opening the account, the school must establish a process for the student or parent to follow to open the account or to similarly assist the student or parent in opening the account. The school must:

- Obtain, in writing, affirmative consent from the student or parent.
  [§668.164(c)(3)(i)]

- Before the account is opened, inform the student or parent borrower of the terms and conditions associated with accepting and using the account.
  [§668.164(c)(3)(ii)]

- Not make any claims against the funds in the account without the written permission of the student or parent, except for correcting an error in transferring the funds in accordance with banking rules.
  [§668.164(c)(3)(iii)]

- Ensure the student or parent does not incur any cost in opening the account or initially receiving any type of debit card, stored value card, other type of automated teller machine (ATM) type card, or similar transaction device that is used to access the funds in that account.
  [§668.164(c)(3)(iv)]

- Ensure that the student has convenient access to a branch office of the bank or an ATM of the bank in which the account was opened (or an ATM of another bank), so that the student does not incur any cost in making cash withdrawals from that office or ATMs. This branch office or these ATMs must be located on the school's campus, in school-owned or operated facilities, or immediately adjacent to and accessible from the campus.
  [§668.164(c)(3)(v)]

- Ensure that the debit, stored-value, or ATM card, or other device can be widely used (e.g., the school may not limit the use of the card or device to particular vendors).
  [§668.164(c)(3)(vi)]

- Not market or portray the account, card, or device, as a credit card or credit instrument, or subsequently convert the account, card, or device to a credit card or credit instrument.
  [§668.164(c)(3)(vii)]

### Payment through a Stored-Value Card

A school that pays a credit balance to a student through a school-issued stored-value card over which the school exercises control is holding the student's Title IV credit balance and must comply with all of the conditions for holding a credit balance (see Subsection 8.8.C). If a school issues a stored-value card to the student, the school must obtain authorization from the student or parent borrower, as applicable, and the following conditions must be met:
[§668.164(c)(3)]

- The value of the card must be convertible to cash and may not be limited to the specific vendors.

- The student must not incur any fees for using the card to withdraw the disbursement at that bank or at the ATMs of the bank.

- The student must not be charged by either the school or affiliated bank for the issuing of a stored-value card. The student may be charged for a replacement card.

- The bank must have an individual account for each student that is insured by the FDIC or the NCUSIF.

- The school must not make any claims against the funds on the card without the written permission of the student, except to correct an error in transferring the funds to the bank under existing banking rules.

- The account must not be marketed or portrayed as a credit card account, nor be structured to be converted into a credit card at any time after it is issued. The issuing bank may not link the stored-value card account to any other banking services it may offer, such as checking, savings, or credit card accounts.

- The school must inform the student of any terms and conditions associated with accepting and using the stored-value card.

- The school must ensure that its stored-value card process meets all regulatory time frames for delivery of loan proceeds or payment of Title IV credit balance (see Subsection 8.8.C).

- The student's access to the funds on the stored-value card must not be contingent upon the student's continued enrollment, academic status, or financial standing with the school.

[DCL GEN-05-16]

## 8.8.C
## 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 the student, the guarantor, and the Department, 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 (see Section 8.3). If the school receives 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.
  [§668.165(b)(5)(i)]

- 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.
  [§668.165(b)(5)(ii)]

- Advise the borrower that he or she may cancel or modify this authorization at any time (see Section 8.3).
  [§668.165(b)(2)(ii)]

- Pay any remaining loan balance to the student or parent borrower no later than the end of the loan period.
  [§668.165(b)(5)(iii)]

The school may retain any interest earned on the student's funds.

## 8.8.D
## Treatment of a Title IV Credit Balance When a Student Withdraws

If a student withdraws and has a Title IV credit balance on his or her account, the school must:

- Complete a return of Title IV funds calculation before delivering any portion of the credit balance to the student or returning any portion of the credit balance to the Title IV student aid programs. The school must hold the funds even if it results in the school not being in compliance with the 14-day payment requirement discussed in Subsection 8.8.A. In this case, the school does not need the student's or parent's authorization to hold the Title IV credit balance beyond the original 14-day period.

- Include any existing Title IV credit balance for the period as disbursed aid in the return of Title IV funds calculation.

- Apply all other required refund policies (e.g., state, accrediting agency, institutional), to determine if a new or larger credit balance exists on the student account.

Within 14 days of the date that the school performs the return of Title IV funds calculation, the school must pay any remaining Title IV credit balance. The school must first allocate the Title IV credit balance to repay any grant overpayment owed by the student as a result of the current withdrawal. If there is no grant overpayment owed or if an additional credit balance exists on the account after the grant overpayment is repaid, it must be paid in one or more of the following ways:

- In accordance with cash management regulations, the school may use the credit balance to pay authorized charges at the school (including previously paid charges that are now unpaid due to a return of Title IV funds by the school).

- With the student's authorization, the school may use the credit balance to reduce the student's Title IV loan debt (not limited to loan debt incurred for the payment period or period of enrollment during which the student withdrew).

- The school may deliver the credit balance to the student, or the parent in the case of a parent PLUS loan.

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

If the school cannot locate the student or parent to whom a Title IV credit balance is due, the school must return the credit balance to the Title IV programs. In this case, there is no specific order of return to the Title IV programs, but schools are encouraged to make determinations that are in the best interest of the individual student.
[DCL GEN-04-03]

## 8.8.E
## Treatment of a Title IV Credit Balance When a Student Dies

If a student dies and there is a Title IV credit balance on his or her account after the school completes the return of Title IV funds calculation—and the credit balance resulted from funds delivered to the student before his or her death—the school must eliminate the credit balance in any of the following ways:

- Pay authorized school charges including those charges that were previously paid but are now unpaid because the school was required to return funds as a result of the return of Title IV funds calculation.

- Repay any Title IV grant overpayments that the student owes for previous withdrawals (the school should not report a grant overpayment resulting from the return of Title IV funds calculation that was completed as a result of the student's death).

- Return any remaining credit balance to the Title IV programs.
  [10-11 FSA Handbook, Volume 5, Chapter 2, p. 5-101]

## 8.9
## Return of Loan Funds

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.
[§682.604(d)(3)(ii); §668.167(b)]

If the student fails to register, enroll, maintain at least half-time enrollment, or maintain satisfactory academic progress (SAP), 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.
[§668.22(b)(1); §682.604(d)(3)]

If a school delivers the loan proceeds on behalf of a student who fails to complete the loan period, the school must determine if funds must be returned to the lender. See Section 9.5 for more information on requirements regarding the return of Title IV aid.
[§668.22(a)(1)]

If either the school or the borrower returns the proceeds of a loan disbursement, the school may request that the lender make subsequent disbursements of the loan, unless the school or the lender has information that the student is no longer enrolled.
[§682.207(b)(1)(vii)]

Figure 8-6 provides situations in which loan funds may be delivered or must be returned, and applicable time frames.

## 8.9.A
## Return of Undelivered Loan Funds

If the school is unable to deliver loan proceeds to the borrower within the time frames specified in Subsection 8.7.A, 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 8.7.A.
[§668.167(b)(2)]

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:
[§682.604(d)(3)]

- 13 business days after the school's receipt of proceeds disbursed by EFT or master check.
  [§668.167(b)(2)]

- 30 days (initial period) plus 10 business days (return period) after the school's receipt of proceeds disbursed by individual check.
  [§668.167(b)(2)]

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 the school tries to deliver FFELP loan funds to a student or parent borrower who does not receive or fails to negotiate those funds, and the funds are unclaimed, the school must return the funds to the lender. Even if state laws or regulations would otherwise require the return of unclaimed funds to the state, loans disbursed under the FFELP and not claimed by the intended recipient must be returned to the FFELP lender.
[§668.164(h)(1)]

If the funds are delivered by individual check and the check is returned, or if the funds are delivered by EFT and the EFT transaction is rejected, the school may make additional attempts to deliver the funds. The school's subsequent attempts to deliver the funds must begin no later than 45 days after the funds were returned or rejected, as applicable. The school may continue to attempt to deliver the funds for a period of up to 240 days after the date of the initial delivery attempt. However, if efforts to deliver the funds are unsuccessful, the school must return the undelivered funds to the lender no later than the end of that 240-day period.
[§668.164(h)(2) and (3)]

If the school chooses not to make subsequent attempts to deliver the loan funds, the school must return the funds to the lender no later than 45 days after the loan funds were rejected or returned.
[§668.164(h)(3)(i)]

## 8.9.B
## Return of Ineligible Borrower Loan Funds

If loan funds have been delivered to, or on behalf of, a student who did not begin attendance in a loan period, or payment period within the loan period, the borrower may be considered ineligible for those funds. A student did not begin attendance if the school is unable to document the student's attendance in any class during a loan period, or during a payment period within the loan period. The determination of whether the ineligibility is due to borrower, school, or lender error is contingent upon when the funds were delivered. See Section 5.17 for more information about ineligibility for loan funds due to borrower, school, or lender error.
[§668.21(c)]

If a student does not begin attendance at the school and the school has credited the student's account or delivered any Title IV aid directly to the student, the school must return all of those funds to their respective program(s). Those funds must be returned as soon as possible, but no later than 30 days after the date the school determined that the student did not begin attendance. The funds that the school must return are not a student Title IV liability and will not affect the student's Title IV eligibility. However, school charges not paid by financial aid funds are a student liability owed to the school and are subject to the school's own collection process.

If the school provides a bookstore voucher for a student to obtain or purchase necessary books and supplies, those expenses are considered school charges because the student does not have a real and reasonable opportunity to purchase the materials from any other source. The school must include those charges as school charges in determining the portion of unearned Title IV aid that the school is responsible for returning. (See the 09-10 FSA Handbook, Volume 5, pp. 10-12 for more information on when a student fails to begin attendance and Volume 5, Chapter 9, School Reporting Responsibilities and the Return of Title IV Aid.)
[§668.164(i)]

#### Ineligibility Due to Borrower Error

A borrower is considered ineligible for FFELP loan funds due to borrower error if any of the following occur:

- The school delivered loan funds to, or on behalf of, an otherwise eligible student as early as 10 days prior to the beginning of a loan period, and the school later learned that the student did not begin attendance in the loan period.

- The school delivered loan funds to, or on behalf of, an otherwise eligible student as early as 10 days prior to a second or subsequent payment period in the loan period, and the school later learned that the student did not begin attendance in the second or subsequent payment period.

- The lender directly disbursed funds to a study-abroad or foreign school student and the student did not begin attendance in the loan period or payment period.

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. However, the school must return to the lender all loan funds credited to the student's account at the school for the loan period or payment period, as applicable, that the student did not attend. The school must also return to the lender the amount of payments made directly by, or on behalf of, the student to the school for the loan period or payment period that the

student did not attend, up to the total amount of the loan funds disbursed to the school. A school must return to the lender those funds for which it is responsible as soon as possible, but no later than 30 days after the date that the school becomes aware that the student will not, or has not, begun attendance.
[§668.21(a) and (b)]

For loan funds that a lender disbursed or a school delivered directly to a borrower for a loan period, or a payment period in which the student did not begin attendance, the school is not responsible for returning the funds. However, upon learning that a student will not, or did not, begin attendance, the school must immediately notify the lender of the borrower's receipt of funds for which he or she was ineligible, including loan funds that a lender disbursed directly to a student enrolled in study-abroad or foreign school program. A school should include in its notice to the lender the student's withdrawal date, if applicable. For information about a lender's servicing requirements on ineligible loans, see Subsection 12.4.F.
[§668.21(a)(2)(ii)]

#### Ineligibility Due to School Error

A borrower is ineligible for loan funds due to school error if a school knew, or should have known, that a student would not begin attendance during the loan period, or a payment period within the loan period, before the school delivered loan proceeds to, or on behalf of, a student (e.g., the student notified the school that he or she would not attend or the school expelled the student). The school must repay those funds to the lender as soon as possible, but no later than 30 days after the date that the school becomes aware that the student will not, or did not, begin attendance. The amount paid to the lender must include the amount disbursed that the borrower was ineligible to receive 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 subsidized interest and special allowance to the lender, the lender must make an appropriate adjustment on its next quarterly Lender's Interest and Special Allowance Request and Report (LaRS report).
[§668.21(a)(2)(iii) and (b); §682.604(d)(3)(i)]

If the school is required to repay the entire loan amount, the school may request that the lender assign the loan to the school using either the original or a true and exact copy of the promissory note at the time the school returns the loan funds to the lender. A lender must comply with the loan record retention requirements in Subsection 3.4.A for any loan assigned to a school and for any remaining loans held by the lender that were originated under the same Master Promissory Note (MPN).

#### Timely Return of Ineligible Loan Funds

The school's return of FFELP loan funds for which it is responsible is considered timely if the school does one of the following as soon as possible, but no later than 30 days after the date the school becomes aware that the student will not, or did not, begin attendance:

- Deposits or transfers the amount of funds to be returned into an account that the school maintains for federal funds (see Section 8.1).
- Initiates an electronic funds transfer (EFT) for the amount of returned funds.
- Initiates an electronic transaction that informs the lender to adjust the borrower's loan account for the amount of returned funds.
- Issues a check for the returned funds. In this case, the school's records must show that the lender's bank endorsed the check within 45 days after the date the school becomes aware that the student will not, or has not, begun attendance.
  [§668.21(d)]

## 8.9.C
## Return of Unearned Loan Funds

If the student registers but officially or unofficially withdraws, takes an unapproved leave of absence, does not return from an approved leave of absence, or is expelled, the school must perform the return of Title IV funds calculation and return to the lender that portion of unearned Title IV funds for which the school is responsible and that is allocable to a FFELP loan. The funds must be returned no later than 45 days from the date the school determines that the student has withdrawn. In the case of an approved leave of absence, the funds must be returned to the lender within 45 days of the date the leave of absence ended or within 45 days of the date the student notified the school that he or she would not be returning, whichever is earlier. For more information on determining the date of withdrawal, see Section 9.4.

If the student drops to less-than-half-time status, but is still enrolled, the school does not perform a return of Title IV funds calculation and is not required to return a Stafford or PLUS loan disbursement that the school delivered when the student was enrolled at least half time.
[HEA §484B(b)(1); §668.22(j); §668.22(l)(3)(iii); §682.607(c); DCL GEN-06-05; DCL GEN-00-24; 10-11 FSA Handbook, Volume 5, Chapter 2, p. 5-75]

## 8.9.D Return of Loan Funds for a Deceased Borrower

The disbursement or delivery of Stafford or PLUS loan funds after the date of a borrower's death or after the death of a student for whom a parent borrowed a PLUS loan is prohibited. The school must return funds to the lender that were disbursed to the school after the borrower or dependent student's death.

*Death of a Student Borrower*

When a school determines that a student borrower died during the payment period or period of enrollment, as applicable, the school must complete a return of Title IV funds calculation and return all Title IV funds for which it is responsible. The school must return to the lender all Stafford and Grad PLUS loan funds that were not delivered before the student borrower died. Any loan funds delivered after the date of the student's death must be returned to the lender. See Section 9.4 for information about determining the student's withdrawal date and completing the return of Title IV funds calculation.
[10-11 FSA Handbook, Volume 5, Chapter 2, p. 5-101]

*Death of a Parent Borrower*

A school may not deliver parent PLUS loan funds after the date of the parent borrower's death even if the student is alive and otherwise eligible. The school must return to the lender all parent PLUS loan funds that were not delivered before the borrower died. If the school delivers a parent PLUS loan disbursement and subsequently learns that the parent borrower died prior to the date that the disbursement was delivered, the school must return the disbursement to the lender. See Section 6.8 for information about correcting a FAFSA if the student's last remaining parent dies. See Subsection 6.15.D for information about certifying an additional unsubsidized Stafford loan for a student whose parent dies during the loan period.

*Death of a Student for Whom a Parent Borrows a PLUS Loan*

A school may not deliver parent PLUS loan funds after the date of the death of a dependent student for whom a parent borrowed the parent PLUS loan. The school must return to the lender all parent PLUS loan funds that were not delivered before the dependent student died. If the school delivers a parent PLUS loan disbursement and subsequently learns that the dependent student for whom the parent borrowed the parent PLUS loan died prior to the date that the disbursement was delivered, the school must return the disbursement to the lender.
[10-11 FSA Handbook, Volume 5, Chapter 2, p. 5-101]

## School Requirements before Delivering a FFELP Loan — Figure 8-3

| 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:<br>• Recalculates the student's cost of attendance (COA) (and the borrower still qualifies for full amount of the loan).<br>• Documents the student's enrollment status, revised COA, and continued eligibility.<br>[§682.604(b)(1)(iv); §685.303(b)(2)(iv)] |
| Confirm student has returned from an approved leave of absence. | See Section 9.3 for more information on leave of absence.<br>[§682.604(c)(4)] |
| Confirm student is maintaining satisfactory academic progress (SAP). | Assessment of SAP is not required at the time the loan is received or delivered, unless required by the school's policy.<br>[§668.16(e)] |
| Verify student data, if required. | See Subsection 6.6.A for more information on verification.<br>[§668, Subpart E] |
| Obtain all required financial aid information. | See Subsection 5.15.A. for more information on FATs.<br>[§668.19] |
| Perform entrance counseling, if required. | Entrance counseling is required for first-time Stafford borrowers and for first-time Grad PLUS loan borrowers.<br>• 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.<br>• 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.<br>[§682.604(f); §685.304(a)] |
| Confirm that no overaward exists. | The sum of an installment and the student's EFA may not exceed the student's need.<br>• All or a portion of any unsubsidized Stafford or PLUS loan (made under the FFELP or FDLP) may be used to replace EFC.<br>• The determination of whether an overaward exists excludes a $300 FWS tolerance for students with FWS awards.<br>• To eliminate the amount in excess of need, the school must return excess amount and/or adjust the amount of a subsequent disbursement.<br>[§682.604(h); §685.303] |
| 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.<br>• The disbursement may not be delivered until the student completes the first 30 days of his or her program of study.<br>• Not applicable if student borrowed a FFELP or FDLP loan at another school.<br>• The school may not request an EFT or master check disbursement earlier than the 28th day of the student's first payment period.<br>• The school may not request an individual check disbursement earlier than the 1st day of the student's first payment period.<br>[§668.167(b)(1)(iii); §682.604(c)(2)(i)] |

Adapted from: *Trainee Guide: 1995-96 Delivery System Training Workshop*, U.S. Department of Education, December 22, 1994, page 5-36.

## Earliest Disbursement and Delivery Dates — Figure 8-4

Note: the earliest disbursement and delivery dates below may not apply to a student enrolled in a credit-hour program offered in modules. See Subsections 6.4.B and 8.7.F for more information.

| | Not Subject to Delayed Delivery[1] | | Subject to Delayed Delivery[2] | |
|---|---|---|---|---|
| **Disbursement Method** | Earliest Disbursement Date | Earliest Delivery Date | Earliest Disbursement Date | 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 | | 28th day of first payment period | |
| | §682.207(b)(1)(iii)<br>§668.167(a)(1)(ii) and (2)(ii)<br>§682.604(c) | §668.164(f)(1) | §668.167(a)(1)(ii) and (2)(i) | §668.164(a) and (f)<br>§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 8.7.C 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 (see Subsection 8.7.D).

## Delivery of Credit Balances — Figure 8-5

| Disbursement Method | Latest Delivery Date |
|---|---|
| Individual Check, EFT, or Master Check | No later than 14 days after:<br>• The first day of the payment period if the credit balance occurs on or before the first day of the payment period. [§668.164(e)(2)]<br>• The date the credit balance occurs if the credit balance occurs after the first day of the payment period. [§668.164(e)(1)]<br>• 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. [§668.165(b)(4)(iii)] |

## Delivery or Return of Loan Funds — Figure 8-6

For more detailed information about the delivery or return of loan proceeds, see Sections 8.7 and 8.9.

| Situation | Condition under Which Proceeds May Be Delivered to Student | Latest Delivery Date[1] | Time Frame for Returning Undelivered Proceeds to Lender[2, 3] |
|---|---|---|---|
| Enrolled student fails to respond to request for endorsement of loan check or fails to authorize EFT or master check[4] | After endorsement or authorization[4], subject to FFELP loan delivery requirements | Check: Within 30 days after receipt of proceeds<br>EFT/Master Check: Within 3 business days after receipt of proceeds<br>[§668.167(b)(1)(ii) and (iii)] | Promptly, but no later than 10 business days after the latest delivery date<br>[§668.167(c)(1)] |
| Student is on an approved leave of absence<br>[§682.604(c)(4)] | Student returns from the leave of absence | Check: Within 30 days after receipt of proceeds<br>EFT/Master Check: Within 3 business days after receipt of proceeds<br>[§668.167(b)(1)(ii) and (iii)] | Promptly, but no later than 10 business days after the latest delivery date<br>[§668.167(c)(1)] |
| Student fails to undergo initial loan counseling<br>[§682.604(f); §685.304(a)] | After counseling, subject to FFELP loan delivery requirements | Check: Within 30 days after receipt of proceeds<br>EFT/Master Check: Within 3 business days after receipt of proceeds<br>[§668.167(b)(1)(ii) and (iii)] | Promptly, but no later than 10 business days after the latest delivery date<br>[§668.167(c)(1)] |
| Student selected for verification<br>[§668, Subpart E] | When verification is completed, subject to FFELP loan delivery requirements | Within 45 days of receipt of proceeds<br>[§668.58(c); §668.60(b)(3)] | Promptly, but no later than 10 business days after the latest delivery date if verification is not completed<br>[§668.167(c)(1)] |
| Missing financial aid information for student (see Subsection 5.15.A)<br>[§668.19] | When all required financial aid information is received, subject to FFELP loan delivery requirements (see Section 8.7) | Check: Within 30 days after receipt of proceeds<br>EFT/Master Check: Within 3 business days after receipt of proceeds<br>[§668.167(b)(1)(ii) and (iii)] | Promptly, but no later than 10 business days after the latest delivery date if all required financial aid information is not received<br>[§668.167(c)(1)] |
| Student fails to register<br>[§682.604(d)(3); §685.303(b)(2)] | N/A | *Only to determine time frame for returning proceeds*<br>Check: Within 30 days after receipt of proceeds<br>EFT/Master Check: Within 3 business days after receipt of proceeds<br>[§668.167(b)(1)(ii) and (iii)] | Promptly, but no later than 10 business days after the latest delivery date<br>[§668.167(c)(1)] |
| Registered student withdraws or is expelled before first day of classes, or fails to attend<br>[§682.604(d)(3); §685.303(b)(2)] | N/A | *Only to determine time frame for returning proceeds*<br>Check: Within 30 days after receipt of proceeds<br>EFT/Master Check: Within 3 business days after receipt of proceeds<br>[§668.167(b)(1)(ii) and (iii)] | Promptly, but no later than 10 business days after the latest delivery date<br>[§668.167(c)(1)] |
| Student fails to maintain at least half-time enrollment or loses loan eligibility<br>[§682.604(b)(2)(i); §685.303(d)] | N/A | *Only to determine time frame for returning proceeds*<br>Check: Within 30 days after receipt of proceeds<br>EFT/Master Check: Within 3 business days after receipt of proceeds<br>[§668.167(b)(1)(ii) and (iii)] | Promptly, but no later than 10 business days after the latest delivery date<br>[§668.167(c)(1)] |
| Student is overawarded<br>[§682.604(h); §685.303(e)] | Student is eligible for portion of proceeds | Check: Within 30 days after receipt of proceeds<br>EFT/Master Check: Within 3 business days after receipt of proceeds<br>[§668.167(b)(1)(ii) and (iii)] | Promptly, but no later than 10 business days after the latest delivery date if entire loan disbursement<br>[§668.167(c)(1)]<br>Within 60 days of determining an overaward exists if portion of proceeds |

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.
[§668.167(c)]

2 In the case of an overaward, schools *must* indicate in writing the reason for returning loan proceeds and, if applicable, provide the student's withdrawal date. In all other cases, schools are encouraged to provide the reason for returning loan proceeds and, if applicable, provide the student's withdrawal date. 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.
[§668.167(b)(3); §682.604(h); §685.303(e)]

3 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.
[§668.167(b)(2)]

4 The required authorization is included on the Master Promissory Note (MPN). However, if the MPN is signed by a third party with power of attorney for the borrower, the school must obtain a separate authorization from the borrower. This requirement does not apply to students enrolled in a study-abroad program (see Subsection 7.7.E).

## 8.10
## Delivery When Department Approval Is Required

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.
[§668.167(b), (d), (e), and (f); §682.604(a)(3)]

## 8.11
## Delivering Loan Funds in Cases of Lost School Eligibility

Generally, a school that has lost its eligibility to participate in Title IV programs may not certify loan eligibility or deliver loan funds. There are exceptions to this rule in limited circumstances, as noted in Subsection 8.11.A.
[§600.40]

## 8.11.A
## Exceptions to Delivery Restrictions at Ineligible Schools

A school's loss of eligibility has an impact on its ability to deliver Title IV funds to students. Following are some instances in which a school may be prohibited from delivering Title IV funds to students:

1. If a school's Program Participation Agreement (PPA) expires, the school may not deliver Title IV funds until it receives notice from the Department that it is eligible to participate, unless the school submitted a materially complete renewal application at least 90 days prior to the expiration of its current PPA and is awaiting a final determination.
[§600.20(f)(1)(i) and (ii)]

2. If a private nonprofit, private for-profit, or public school undergoes a change of ownership resulting in a change of control, or a school changes status as a nonprofit, for-profit, or public school, the school's PPA with the Department expires immediately and the school may not deliver Title IV funds unless it has submitted a materially complete application to reestablish eligibility or continue certification to participate in Title IV programs. The application must be submitted no later than 10 business days after the change or, in the case of a school owned by a publicly-traded corporation, no later than 10 business days after the school knew or should have known that the change occurred based on Securities Exchange Commission (SEC) filings. In addition, to be eligible to deliver Title IV funds, the school must receive a provisional PPA, submit any additional required information in a timely manner, and be awaiting a final determination from the Department. (See Subsection 4.1.C for additional requirements.)
[§600.20(f)(2)(i)]

Except for the delivery of second or subsequent disbursements as described in Subsection 8.11.B, if a school does not submit a timely application for renewal of certification or approval of ownership change and continues to deliver Title IV funds, the school is liable for those Title IV funds delivered after the expiration of the school's eligibility.
[§668.26(d)(2)(i); §682.604(b)(2)(iii); §685.303(d)]

## 8.11.B
## Delivery of Second or Subsequent Disbursements after a School Loses Eligibility

A student who is enrolled at a school, and who has received the first disbursement of a FFELP loan before the school loses its eligibility to participate in the Department's or guarantor's programs, may receive the second or subsequent disbursements of that loan, if the borrower is otherwise eligible.
[§668.26(d)(2)(iv)]

A school may credit to a student's account or deliver to the student the proceeds of a second or subsequent disbursement of a Stafford loan to satisfy any unpaid commitment made to the student 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 loan period.
[§668.26(d)(2)(i)]

- The Stafford loan commitment was made before the end of the school's participation.
  [§668.26(d)(2)(iii)]

- The commitment was made for the student's attendance during the loan period in which the school's participation ended.
  [§668.26(d)(2)(iii)]

- 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.
  [§668.26(d)(2)(iv)]

- The school continues to provide, from the date that its participation ends until the scheduled completion date of that loan period, educational programs to otherwise eligible students enrolled in the formerly eligible programs of the school.
  [§668.26(d)(2)(ii)]

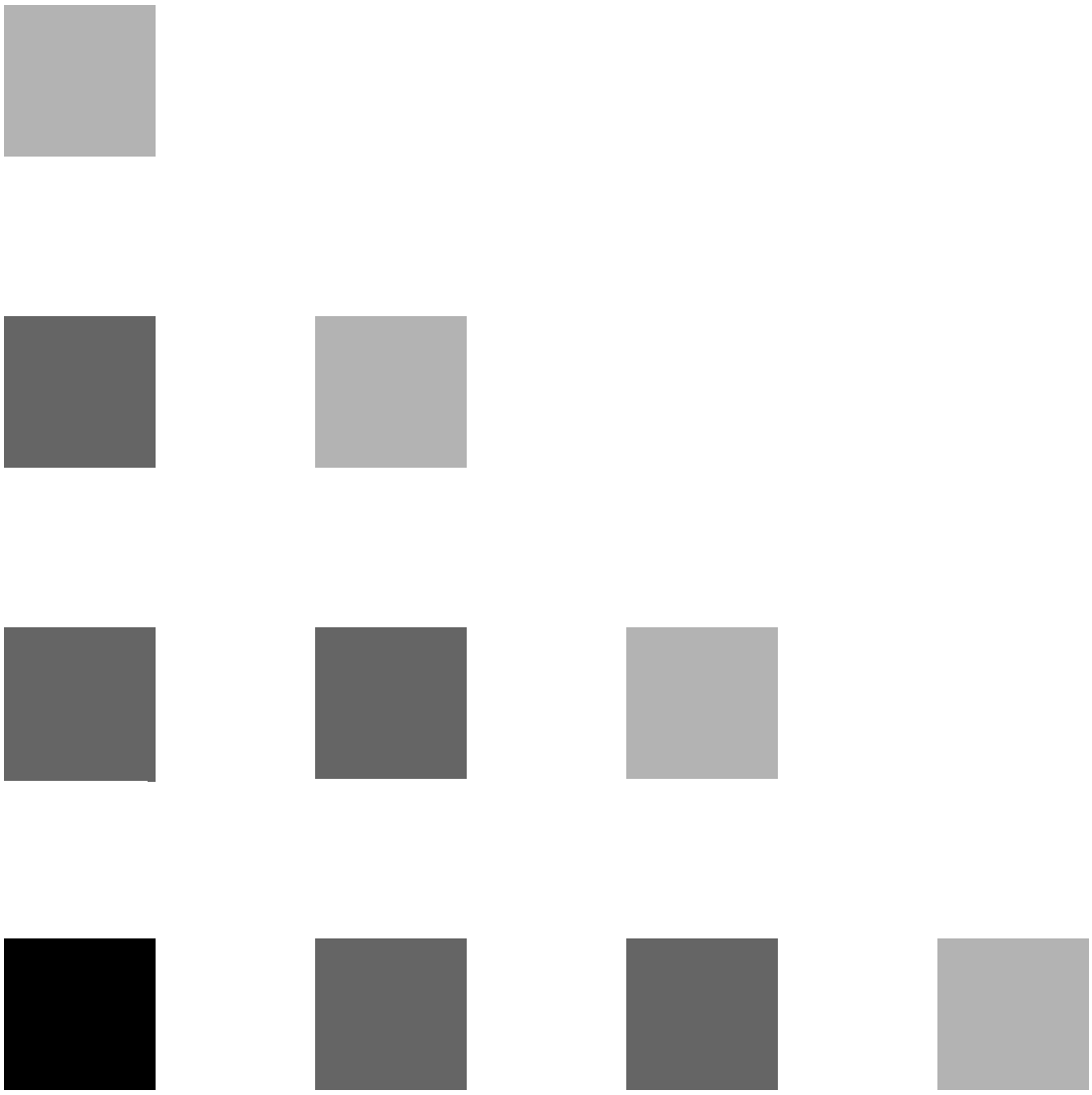
The preceding guidelines do not apply to every situation in which a school ceases to be eligible to participate in Title IV programs. The school should immediately contact the Department or a guarantor for additional guidance on delivering proceeds. Improper delivery of student loan proceeds may result in institutional liability.

# Tab Locator Page

## Remove this page and replace with tab divider.

# Tab Locator Page

## Remove this page and replace with tab divider.



# 9 School Reporting Responsibilities and the Return of Title IV Funds


| | | |
|---|---|---|
| 9.1 | Reporting Social Security Number, Date of Birth, and First Name Changes or Corrections | 1 |
| 9.2 | Student Enrollment Status Reporting | 2 |
| 9.2.A | National Student Loan Data System (NSLDS) Enrollment Reporting | 3 |
| 9.2.B | Ad Hoc Reporting | 5 |
| 9.2.C | Information Sharing with the Department, a Lender, or a Guarantor | 6 |
| 9.3 | Leave of Absence | 6 |
| 9.4 | Withdrawal Dates | 7 |
| 9.5 | Return of Title IV Funds | 13 |
| 9.5.A | Return Amounts for Title IV Grant and Loan Programs | 14 |
| 9.5.B | Processing Returned Funds | 20 |
| 9.5.C | Responsibilities for Unpaid Refunds | 22 |
| 9.5.D | Return of Title IV Funds Calculations for Students Subject to Verification | 22 |

This page intentionally left blank.

Chapter 9 describes school "servicing" responsibilities for FFELP loans. The information included in this chapter applies to Stafford and PLUS loans. School servicing responsibilities include reporting responsibilities and the return of Title IV funds.

## 9.1 Reporting Social Security Number, Date of Birth, and First Name Changes or Corrections

If a school becomes aware of any issues related to the accuracy of a student's or parent borrower's Social Security number (SSN), date of birth, or first name, the school is expected to confirm the accuracy of this information by obtaining a copy of an acceptable source document (see below for a list of acceptable documents). The school must report changes to a student's or parent borrower's SSN, date of birth, or first name to the guarantor. The school must also notify the lender of any changes to an SSN. If the guarantor requires the supporting documentation, the school must provide it. If the guarantor has information that the identified SSN, date of birth, or first name change is incorrect, it will notify the school.
[February 1996 SSCR Users Guide, Chapter 7, p. 7-5]

If a school identifies a discrepancy, exhausts its efforts to verify the correct SSN, date of birth, or first name and fails to obtain a copy of an acceptable source document, the school should notify the guarantor of the discrepancy. The school must also notify the lender of an SSN discrepancy. In such cases, the school should indicate the source of the discrepancy and provide its reason for reporting the discrepancy. In addition, the school must instruct the lender to cease disbursement of the loan and may not deliver funds to the student that may have already been disbursed until the school determines the correct SSN.
[§668.36(c)]

▲ Schools may contact individual guarantors for more information on procedures for reporting SSN, date of birth, and first name changes or corrections. See Section 1.5 for contact information.

If a school learns that the SSN, date of birth, or first name is incorrect due to a data entry error, the school may change the incorrect information using the original documentation submitted. The school must document the reason it made the change.

### Acceptable Source Documents for Social Security Number (SSN) Changes

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

- Social Security card or other Social Security Administration document.
- W-2 form.
- Unexpired U.S. military ID.
- The Master Promissory Note (MPN) or loan certification (if the discrepancy resulted from a data input error).
- State driver's license or state-issued identification card on which the SSN is listed.

Some guarantors have alternative requirements regarding acceptable source documents. These requirements are noted in Appendix C.

### Acceptable Source Documents for Reporting the Correction of a Date of Birth

A guarantor considers any of the following documents a valid source for reporting the correction of a date of birth:

- Birth certificate.
- Current driver's license (if it contains a birth date).
- State ID (if it contains a birth date).
- U.S. Passport or passport card (current or expired).
- Unexpired U.S. military ID.

### Acceptable Source Documents for Reporting a First Name Change

A guarantor considers any of the following documents a valid source for reporting a first name change:

- Court order.
- Marriage certificate.
- U.S. Certificate of Naturalization (Form N-550 or N-570).

### Acceptable Source Documents for Reporting the Correction of a First Name

A guarantor considers any of the following documents a valid source for reporting the correction of a first name:

- Social Security card.
- Current driver's license.
- Birth certificate.
- State ID.
- U.S. Certificate of Naturalization (Form N-550 or N-570).
- Court order.
- Marriage certificate.
- W-2 Form.
- U.S. Passport or passport card (current or expired).
- Unexpired U.S. military ID.
- U.S. military discharge papers (Form DD214).
- U.S. Certificate of Citizenship (Form N-560 or N-561).
- Alien Registration Card (Form I-551 or I-151).

## 9.2 Student Enrollment Status Reporting

A school must develop procedures to ensure that student enrollment status changes are reported correctly and in a timely manner to the guarantor and/or the lender. Timely and accurate enrollment status reporting is critical for the effective administration of the Title IV student loan programs. Enrollment information is used to determine a student borrower's eligibility for in-school status, deferment, interest subsidy, and grace period. Enrollment information is also used to determine the cohort into which the student's loans are relegated for purposes of determining the school's cohort default rate (see Sections 9.4 and 16.2).

A school reports student enrollment status changes through a process called Enrollment Reporting [previously called the Student Status Confirmation Report (SSCR)]. Examples of enrollment changes that a school is required to report include a change from full-time to half-time status, a change from half-time to less-than-half-time status, a withdrawal, a graduation, or an approved leave of absence that complies with Title IV requirements.
[NSLDS Enrollment Reporting Guide, October 2009, Chapter 1, Section 1.1]

### Reporting by All Schools Except Foreign Schools

All schools with the exception of foreign schools must report enrollment status changes to the National Student Loan Data System (NSLDS) (a foreign school may also use the NSLDS to report enrollment status changes; see the subheading "Reporting by Foreign Schools" below). Schools may elect to satisfy this requirement by reporting to the NSLDS directly or through the use of a third-party servicer. If a student's enrollment status changes and the school does not expect its NSLDS enrollment reporting to be completed within the next 60 days, the school must submit an ad hoc report within 30 days. See Subsection 9.2.B.
[§682.610(c)]

If a school reports enrollment status information to a third-party servicer, the school may deliver any request for enrollment verification received from a guarantor to the third-party servicer for completion.

If a school that is required to report to the NSLDS directly or through the use of a third-party servicer does not do so, the school is not in compliance with the enrollment reporting requirements.
[§682.610(c); NSLDS Enrollment Reporting Guide, October 2009, Chapter 1, Section 1.2]

### Reporting by Foreign Schools

In most cases, foreign schools receive a paper request for enrollment information from the guarantor. The school is required to review the report, update student enrollment information, and return the updated information to the guarantor within 30 days of the date it received the guarantor's request.

Some foreign schools have the capability to report electronically. These schools receive Enrollment Reporting information from the NSLDS either electronically or on tape. The school must update the enrollment information and return the updated file to the NSLDS within 30 days of the date it received the request.

Schools that do not respond to Enrollment Reporting requests within 30 days of receipt are not in compliance with Enrollment Reporting requirements.
[*Student Financial Aid Handbook for Foreign Schools*; January 9, 2002, E-Announcement "New NSLDS Enrollment Reporting"]

## 9.2.A National Student Loan Data System (NSLDS) Enrollment Reporting

Enrollment Reporting, previously called the Student Status Confirmation Report (SSCR), is a function of the National Student Loan Data System (NSLDS). Schools that have received a letter from the Department confirming successful submission of an enrollment Roster File to the NSLDS are exempt from the requirement to provide enrollment information directly to guarantors. Schools that have not received a letter from the Department confirming successful submission of an enrollment Roster File to the NSLDS must respond both to enrollment rosters received from the NSLDS and guarantors until otherwise notified by the Department.
[DCL GEN-97-9]

▲ Questions concerning the proper completion and submission of enrollment data to the guarantor should be directed to the guarantor that prepared the paper roster. See Section 1.5 for contact information.

The accuracy of a Title IV student loan record depends on the accuracy of the data reported by the school and other entities. An NSLDS record must be accurately matched with the school's enrollment record. If one or more of the student identifiers provided by the NSLDS differs with the information in the school's records and if the school is sure that its student identifiers are correct based on a reliable source or documentation in its records, the school must contact the guarantor to correct the identifiers.

The school should review, update, or verify a student's enrollment status and other information with information that appears on the Roster File. The school updates NSLDS enrollment information through the following two methods:

- *Batch Method:* This method allows a school to receive and process a single electronic enrollment Roster File and transmit the enrollment data back to the NSLDS as a single file.
- *Online Method:* This method allows a school to update enrollment data directly on the NSLDS Website screens.
  [NSLDS Enrollment Reporting Guide, October 2009, Chapter 1, Section 1.3]

The NSLDS generates an enrollment Roster File for each school up to six times per year on a schedule chosen by the school. A school may select its schedule using the Enrollment Reporting Schedule Web page on the NSLDS Website. The Department recommends that schools schedule enrollment reporting 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.

The NSLDS transmits an electronic Roster File to the school or the school's designated servicer on the day of the month designated by the school's Enrollment Reporting Schedule. For each student listed on the enrollment Roster File, a school must confirm or update the enrollment status and return the updated roster—called the Submittal File—to the NSLDS within 30 days of the date the Roster File was created. The date the Roster File was created is located in a date and time stamp that the NSLDS enters into the Roster File's header record. To reduce response time, schools that employ third-party servicers may opt to synchronize the transmittal of the NSLDS roster with the delivery of the school file to the third-party servicer. Schools may also complete responses to the Roster File online, eliminating the need to return a Submittal File.
[§682.610(c)(1); NSLDS Enrollment Reporting Guide, October 2009, Chapter 1, Section 1.3, p. 3; Section 1.8, p. 10; Section 3.2.4, p. 71; and Appendix A, Section A.4.1, p. 113]

The NSLDS processes the file and returns an Acknowledgement/Error File that includes a count of accepted records and any record errors. Schools must correct errors and return the corrections within 10 days of the school's receipt of the Acknowledgement/Error File. The Acknowledgement/Error File may not indicate an error, but serves as confirmation that the Submittal File was received and processed by the NSLDS. The school must retain a record of the file for audit purposes.
[NSLDS Enrollment Reporting Guide, October 2009, Chapter 1, Section 1.2]

A school that fails to provide updated enrollment data to the NSLDS either by the online method or the return of its Submittal File within 30 days from the date the NSLDS created the school's Enrollment Reporting Roster File is considered late. The NSLDS sends a Late Enrollment

Reporting Notification via electronic mail if the NSLDS does not receive the school's enrollment status updates within 37 days of the date the NSLDS created the school's Enrollment Reporting Roster File. This electronic mail notification is sent to the enrollment reporting contact and primary contact designated by the school, and to the school's chief executive officer or president.
[NSLDS Enrollment Reporting Guide, October 2009, Chapter 1, Section 1.8, p. 10; NSLDS Newsletters #16 and #17]

If a school uses a servicer to submit Enrollment Reporting files, the school remains responsible for timely and accurate reporting. The NSLDS does not send a Late Enrollment Reporting Notification to a school's servicer. A school that does not comply with the Submittal File return requirements may lose eligibility for Title IV aid or may have fines imposed.
[NSLDS Enrollment Reporting Guide, October 2009, Chapter 1, Section 1.8, p. 10]

The school's enrollment roster will include the student's enrollment status. The school must report any changes to enrollment statuses provided on the Roster File including the effective date of any change and the anticipated graduation date. The school must then return the enrollment data to the NSLDS, which forwards enrollment information to all guarantors. The guarantor will forward any updated enrollment information to the appropriate lenders or servicers. The NSLDS may also send enrollment information directly to certain FFELP lenders and servicers at the same time it sends information to guarantors. The NSLDS notifies guarantors of those lenders and servicers receiving enrollment information directly from the NSLDS.
[§682.401(b)(20); DCL G-00-329/L-00-223; NSLDS Enrollment Reporting Guide, October 2009, Chapter 1, Section 1.6]

Schools also should note the following additional instructions:

- 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 the Submittal File, the school should promptly report the student's reenrollment to the NSLDS to ensure that the student is included on the school's future rosters. Otherwise, the student will not reappear on a Roster File, 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), the school must include this information on the Submittal File. If the SSN is inconsistent with the school's records, the school should continue to verify the enrollment status and report the SSN discrepancy to the guarantor.

- 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 period of enrollment. 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.

  Note: The Department has waived the enforcement of schools' 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.

- 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 Submittal File.

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

Questions on the proper completion and submission of enrollment data to the NSLDS should be directed to the NSLDS Customer Service Center. See Appendix D for contact information.
[DCL GEN-96-17/96-L-189/96-G-291; DCL GEN-97-11; DCL G-00-329/L-00-223; NSLDS Enrollment Reporting Guide, October 2009; The Blue Book, Chapter 10; *NSLDS Newsletter,* Number 2, January 2002]

## 9.2.B
## Ad Hoc Reporting

In addition to being required to submit regular reports to the National Student Loan Data System (NSLDS), a school may be required to report changes in the student's enrollment status that affect the grace period, repayment responsibility, or deferment privileges of a borrower through an ad hoc report.

Unless the school expects to submit a Submittal File within the next 60 days, the school (or its third-party servicer) must submit an ad hoc report to the NSLDS 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)]

Ad hoc reporting to the NSLDS can be done by one of the following methods:

- Submitting an unscheduled Submittal File containing detail for enrollment status changes (created on a PC or mainframe).

- Updating the student records online using the Enrollment Update functions on the NSLDS Website under the ENROLL tab.

- Updating and returning an unscheduled Enrollment Reporting roster file requested from the NSLDS. It may be updated and returned as a Submittal File through the Student Aid Internet Gateway (SAIG) or updated online.

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 cohort default rate.
[NSLDS Enrollment Reporting Guide, October 2009, Chapter 1, Section 1.3.1]

#### Notification of a Student's Loss of Eligibility

Upon notification by a lender that loan funds have been disbursed directly to a student enrolled in a study-abroad program or a foreign school, the school must immediately notify the lender if the student is no longer eligible to receive the disbursement.
[§682.604(b)(1)(ii)]

## 9.2.C
## 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 student who attends or has attended the school. The school should respond to such a request within 30 days.
[§668.24(f)(4)]

In addition, a school (or its designated servicer) must respond to all requests for borrower information from guarantors and lenders, including information needed to locate the borrower, to determine the borrower's eligibility for deferment, or to establish the borrower's repayment schedule.
[09-10 FSA Handbook, Volume 2, Chapter 10, p. 2-126]

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.
[§682.610(c)(2)(iv)]

## 9.3
## Leave of Absence

For purposes of clarity, the *Common Manual* uses the term "leave of absence" to indicate a status in which the student is considered to be continuously enrolled for Title IV program purposes. In order for a student to be considered to be continuously enrolled for Title IV program purposes, the school's leave of absence policy must comply with all of the requirements set forth in §668.22(d). If the school's leave of absence policy does not comply with these requirements, the student is considered to have withdrawn.

A student on an approved leave of absence is considered to be enrolled. A leave of absence is an approved leave of absence if the following conditions are met:

- The school has a written policy regarding leaves of absence that is publicized to students and that requires a written, signed, and dated request from the student prior to the leave of absence. The request must include the reason for the leave.
  [§668.22(d)(1)(i) and (3)(iii); DCL GEN-98-28]

- The student has requested the leave of absence according to the school's policy, and the school has approved the leave. As part of its approval, the school must determine that there is a reasonable expectation that the student will return to school.
  [§668.22(d)(1)(ii) and (iii); DCL GEN-98-28]

- The leave of absence does not involve additional charges by the school to the student.
  [§668.22(d)(1)(v)]

- Except for a student enrolled in a clock-hour or non-term-based credit-hour program, upon return, the student must be permitted to resume and complete the coursework he or she began prior to the leave of absence at the point where the student interrupted his or her training. A student enrolled in a clock-hour or non-term-based credit-hour program is not required to complete the same coursework he or she began prior to the leave of absence upon return.
  [§668.22(d)(1)(vii)]

- If school policy requires a student to return at the beginning of a term and repeat some coursework previously completed, the school's leave of absence policy does not meet the standards required for an approved leave of absence even if the school does not charge the student for repeating the coursework.

- The total number of days of the student's combined, approved leaves of absence does not exceed 180 days in any 12-month period. The 12-month period begins on the first day of the student's leave of absence (or initial leave of absence, if applicable).
  [§668.22(d)(1)(vi)]

- Prior to granting the leave, the school explains to the student the effects that the student's failure to return from a leave of absence may have on repayment of the student's loans, including the depletion of some or all of the student's grace period.
  [10-11 FSA Handbook, Volume 5, Chapter 2, pp. 5-32 to 5-38]

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

Unforeseen circumstances may prevent a student from providing a written request prior to the leave of absence. In such cases, the school may grant the student's request for a

leave of absence if it documents its decision and collects the student's written request at a later date.
[§668.22(d)(3)(iii)(B)]

If the student withdraws after returning from an approved leave of absence, the total number of calendar days in the payment period or period of enrollment used for a return of Title IV funds calculation must be adjusted. The number of calendar days in the leave of absence must be excluded from the total number of days in the payment period or period of enrollment to ensure that a student does not earn funds during a leave of absence.

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 8.7.A. 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 Section 8.9. 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 7.7.F for reissue requirements.
[§682.604(c)(4)]

A student who fails to return to school by the end of an approved leave of absence or whose leave of absence has not been approved must be considered to have withdrawn for purposes of determining the student's last date of attendance and calculating the amount of Title IV funds to be returned. In addition, a student who is considered by the school to have withdrawn is not eligible for an in-school deferment. See Section 9.4 for more information on determining the date of withdrawal and Section 9.5 for applicable requirements for the return of Title IV funds.
[§668.22(b)(1); §668.22(c)(1)(v) and (vi); DCL GEN-98-28]

The last date of attendance for students who fail to return from an approved leave of absence is based upon whether the school is required to record attendance. For schools required to record attendance, the last date of attendance is the last date of academic attendance reflected in the school's attendance records. For schools not required to record attendance, the last date of attendance is the date the student began the leave of absence.
[§668.22(b)(1) and (c)(1)(v); 10-11 FSA Handbook, Volume 5, Chapter 2, p. 5-37]

## 9.4 Withdrawal Dates

A student who ceases enrollment or fails to return to school as expected is considered to have withdrawn. The school must determine the withdrawal date and report that date to the National Student Loan Data System (NSLDS) and, if appropriate, the lender or guarantor. (See Section 9.2 for information regarding a school's student status reporting requirements.)

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 during which 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.
[§682.605(a)]

A school must describe its withdrawal process to students, including those actions which constitute the "beginning" of the withdrawal process, and designate one or more offices the student must contact to provide official notification of withdrawal.
[§668.22; §668.43(a)(3)]

#### Death of a Student

At a school that is required to record attendance, the withdrawal date for a student who has died is the last date of attendance as determined from the school's attendance records.
[§668.22(c)(1)(iv); 10-11 FSA Handbook, Volume 5, Chapter 2, p. 5-82]

#### Withdrawal Dates at Schools Required to Record Attendance

For a school that is required to record attendance, the withdrawal date is the student's last recorded date of academic attendance, as determined by the school from its attendance records. If a student does not resume attendance by the end of an approved leave of absence at the school, or takes a leave of absence that is not an approved leave of

absence, the withdrawal date is the student's last recorded date of academic attendance.
[§668.22(b)(1); DCL GEN-98-28]

A school is considered to be required to record attendance if any of the following conditions exists:

- An outside entity (e.g., an accrediting agency or state regulatory agency) requires the school to record attendance in all classes in a program for a period of time. If an outside entity requires a student to self-certify attendance directly to that entity, the school is considered one that must record attendance for the student—and the school must use the student's attendance record to determine the student's withdrawal date—*only* if the school must verify the student's self-certification.
  [§668.22(b)(3)(i)(A); *Federal Register* dated October 29, 2010, p. 66897; DCL GEN-11-14, Q&A #19]

- The school requires its instructors to record attendance in all classes in a program for a period of time. A school that requires its faculty to record attendance at the program, department, or school level must use those attendance records to determine the date of a student's withdrawal. However, if a faculty member chooses to record attendance, but the school does not require the faculty member to do so, the school is not required to use the faculty member's voluntary attendance records to establish the student's withdrawal date.
  [§668.22(b)(3)(i)(B); *Federal Register* dated October 29, 2010, p. 66897; DCL GEN-11-14, Q&A #19]

- The school or an outside entity has a requirement that can only be met by recording attendance or using a comparable process. This includes, but is not limited to, requiring that students in a program demonstrate attendance in the classes of that program or a portion of the program.
  [§668.22(b)(3)(i)(C)]

If either the school requires its instructors or an outside entity requires the school to record attendance for a limited period of time, the school must use its attendance records to determine the withdrawal date for a student who ceases attendance during that limited period. If the school can document the student's attendance through the period of time during which the school records attendance but the student subsequently ceases attendance, the school must determine the student's withdrawal date according to the requirements for a school that is not required to record attendance (see below).
[§668.22(b)(3)(iii)]

If either the school requires its instructors or an outside entity (e.g., a state workforce development agency) requires the school to record attendance for a specific group of students, the school must use its attendance records to determine the withdrawal date for only that specific group of students.
[§668.22(b)(3)(ii)]

If either the school requires its instructors or an outside entity requires the school to record attendance on only one specified day to meet a census reporting requirement, the school is not considered one that is required to record attendance. If the program is offered in modules, the school is not considered to be required to record attendance if the requirement is to record attendance for one specified day in each module.
[§668.22(b)(3)(iv); DCL GEN-11-14, Q&A #21]

### Withdrawal Dates at Schools Not Required to Record Attendance

If a school is not required to record attendance, the student's withdrawal date varies depending on the type of withdrawal.

*Official Notification of a Student's Intent to Withdraw*

If the student provides notice of his or her intent to withdraw, the withdrawal date is the earlier of the following:

- The date, as determined by the school, that the student began the school's withdrawal process.
  [§668.22(c)(1)(i); DCL GEN-98-28]

- The date the student provided official notification to the school, in writing or orally, of his or her intent to withdraw. "Official notification to the school" is a notice of intent to withdraw that a student provides to an office or offices designated by the school. If the student creates more than one withdrawal date by multiple official notifications of his or her intent to withdraw, the earliest date must be used.
  [§668.22(c)(1)(ii); DCL GEN-98-28]

The school may allow a student to rescind his or her official notification to withdraw if the student signs a written statement that he or she is continuing to participate in academically related activities and intends to complete the payment period or period of enrollment, as applicable. If the student subsequently fails to attend or ceases attendance

without completing the payment period or period of enrollment, the student's withdrawal date is the original date of notification of intent to withdraw, unless the school records a later date on which the student participated in an academically related activity.
[§668.22(c)(2)(i)(A) and (B)]

*Official Notification of Withdrawal Not Provided by Student*

If the student does not initiate the withdrawal process, the withdrawal date is one of the following:

- The midpoint of the payment period (or period of enrollment, if applicable).
  [§668.22(c)(1)(iii); DCL GEN-98-28]

- The date the student began an approved leave of absence, if the student fails to return from the leave of absence.
  [§668.22(c)(1)(v)]

- The date that the student begins an unapproved leave of absence (i.e., a leave of absence that does not comply with Title IV requirements).
  [§668.22(c)(1)(vi)]

- The date related to any of the following conditions that result in the student's withdrawal:

  - Illness.

  - Accident.

  - Grievous personal loss.

  - Death.

  - Other circumstances beyond the student's control. For instance, an administrative withdrawal is considered to be "beyond the student's control" and the withdrawal date would be no later than the first day of the period of nonattendance that resulted in the administrative withdrawal.

  [§668.22(c)(1)(iv); 10-11 FSA Handbook, Volume 5, Chapter 2, p. 5-76; DCL GEN-11-14, Q&A #7]

As an alternative to the preceding dates, the school may use one of the following as a withdrawal date when a student does not initiate the withdrawal process:

- The last date of attendance by the student in an academically related activity as documented by the school. Attendance at an "academically-related activity" includes, but is not limited to:

  - Physically attending a class where there is an opportunity for a direct interaction between the instructor and the student.

  - Submitting an academic assignment.

  - Taking an exam.

  - Participating in an interactive tutorial.

  - Engaging in computer-assisted instruction.

  - Attending a study group that is assigned by the school.

  - Participating in an online discussion about academic matters.

  - Initiating contact with a faculty member to ask a question about the academic subject studied in the course.

  [§668.22(l)(7)(i)(A)]

  Attendance at an "academically-related activity" does not include an activity in which a student may be present but not academically engaged, including, but not limited to:

  - Living in school housing.

  - Participating in the school's meal plan.

  - Logging into an online class without active participation.

  - Participating in academic counseling or advisement.

  [§668.22(l)(7)(i)(B)]

  The school must confirm and document the student's attendance at an academically-related activity. A school may not rely solely on a student's self-certification that he or she attended an academically-related activity.
  [§668.22(c)(3)(i) and (ii); §668.22(l)(7)(ii)]

- The date, as determined by the school, when circumstances beyond the student's control occurred (such as illness, accident, or grievous personal loss), prevented him or her from providing official notification to the school.
  [§668.22(c)(1)(iv); DCL GEN-98-28]

A school must have procedures in place to identify and resolve instances in which a student's attendance cannot be confirmed through the end of the payment period or period of enrollment, as applicable. These instances constitute unofficial withdrawals.

If a student does not earn a passing grade in at least one class that he or she was scheduled to attend in a payment period or period of enrollment, as applicable, the school may not presume that the student completed that period. If the school cannot confirm the student's attendance through the end of that period, the school must treat the student as an unofficial withdrawal. The school must establish a withdrawal date for the student that is either the midpoint of the period or the student's last date of attendance at an academically related activity, as documented by the school. [DCL GEN-04-03; 10-11 FSA Handbook, Volume 5, Chapter 2, pp. 5-77 to 5-78]

For a student enrolled in a credit-hour program offered in modules, a school must apply different rules for determining whether a student has unofficially withdrawn based on a failing grade(s). See the subheading *Withdrawal from a Credit-Hour Program Offered in Modules,* below.

### Withdrawal From a Program Offered in Modules

A school determines if a student enrolled in a program comprised of modules is considered withdrawn and whether a return of Title IV funds calculation is necessary based on the date the student ceases attendance, the structure of the program of study, whether the student was scheduled to attend a subsequent module at the time he or she ceased attendance, and, in some cases, the student's course grade(s) or stated intent to attend a subsequent module in the same program and payment period or, as applicable, period of enrollment.

- A student enrolled in a program offered in modules is considered to have withdrawn if the student does not complete:
  - In the case of a credit-hour program, all of the calendar days in the payment period or period of enrollment that the student was scheduled to complete.
  - In the case of a clock-hour program, all of the clock hours and weeks of instructional time in the payment period or period of enrollment that the student was scheduled to complete.
- A course that a student officially drops prior to ceasing attendance is not considered a course that the student was scheduled to attend, unless the student remained enrolled in another concurrent course(s).
- A course offered in a module that a student officially adds prior to ceasing attendance is considered a course that the student was scheduled to attend.
- A module in which the student does not enroll is not considered a module that the student was scheduled to attend.
  [§668.22(a)(2)(i)(A); *Federal Register* dated October 29, 2010, p. 66895]
- If a student enrolled in a program offered in modules does not earn at least one passing grade in the last course(s) that he or she was scheduled to attend, and the school cannot demonstrate that the student completed the last course(s), the school must assume that the student unofficially withdrew.
  [*Federal Register* dated October 29, 2010, p. 66896]
- A student enrolled in a non-term-based or nonstandard term-based program offered in modules is considered to have withdrawn—regardless of whether the student notifies the school of his or her intent to withdraw—if the student is not scheduled to attend another module in the same program and payment period or, as applicable, period of enrollment that begins not later than 45 days after the end of the module that the student last attended, unless the student is on an approved leave of absence. (See Section 9.3 for more information about leaves of absence.)
  [§668.22(a)(2)(i)(C); DCL GEN-11-14, Q&A #7]
- A student who ceases attendance in a program offered in modules is *not* considered to have withdrawn if the school obtains written confirmation from the student at or close to the time of his or her withdrawal that the student will attend a subsequent module in the same program and payment period or, as applicable, period of enrollment. The school may not rely solely on the student's enrollment or registration in a subsequent module prior to his or her withdrawal unless the student registered for that subsequent module at the time he or she withdrew. For a student who ceases attendance in a non-term-based or nonstandard term-based program offered in modules, the subsequent module must begin within 45 days after the end of the module that the student last attended.
  [§668.22(a)(2)(ii)(A)(1) and (2); *Federal Register* dated October 29, 2010, p. 66893; DCL GEN-11-14, Q&A #3 and #4]

- A student who ceases attendance in a program offered in modules and who provides written confirmation of the intent to attend a subsequent module in the same program and payment period or, as applicable, period of enrollment may change the date that he or she will return to a module that begins later in the same period. In such a case, the student is not considered to have withdrawn if the school obtains—prior to the original return date that the student previously confirmed—written confirmation from the student that he or she will resume attendance in the later module. For a student who ceases attendance in a non-term-based or nonstandard term-based program offered in modules, the later module must begin within 45 days after the end of the module that the student last attended. [§668.22(a)(2)(ii)(B)(1) and (2)]

- If a student who ceases attendance in a program offered in modules provides written confirmation of the intent to attend a subsequent module in the same program and payment period or, as applicable, period of enrollment but then fails to do so, the student is considered to have withdrawn as of the date that would have applied if the student had not indicated his or her intent to return in a subsequent module. [§668.22(a)(2)(ii)(C)]

A school should use the following decision-making process to determine whether a student enrolled in a credit-hour program offered in modules has withdrawn:

Step 1: After beginning attendance in the payment period or, as applicable, period of enrollment, did the student cease to attend or fail to begin attendance in a course he or she was scheduled to attend?

- No: This is not a withdrawal.

- Yes: Go to Step 2.

Step 2: When the student ceased to attend or failed to begin attendance in a course he or she was scheduled to attend, was the student still attending any other course(s)?

- Yes: This is not a withdrawal, but the school may be required to recalculate the student's eligibility for Pell grant and campus-based funds (see below).

- No: Go to Step 3.

Step 3: Did the school obtain, at the time the student ceased attendance, written confirmation that the student would attend another course in the same program that begins later in the same payment period or, as applicable, period of enrollment? (Note: in a non-term-based or nonstandard term-based program, the subsequent course must begin no later than 45 calendar days after the ending date of the module that the student last attended.)

- Yes: This is not a withdrawal, unless the student does not resume attendance as previously confirmed.

- No: This is a withdrawal.

[*Federal Register* dated October 29, 2010, pp. 66895 and 66896]

If a student enrolled in a credit-hour program offered in modules withdraws before beginning attendance on at least a half-time basis, the school must not make a post-withdrawal disbursement of Stafford or PLUS loan funds to the student. However, a school must include in aid that could have been disbursed for the purpose of the return of Title IV funds calculation an undelivered Stafford or PLUS loan disbursement intended for the payment period or as applicable, period of enrollment in which the student withdrew, if the conditions for making a late disbursement were met as of the date of the student's withdrawal. A school that calculates a return of Title IV funds on a period of enrollment basis may be required to include a subsequent undelivered disbursement(s) of Stafford or PLUS loan funds in aid that could have been disbursed for the purpose of the return of Title IV funds calculation. See Subsection 9.5.A.
[10-11 FSA Handbook, Volume 5, Chapter 2, pp. 5-67 to 5-71]

If a student's withdrawal results in the student's failure to begin attendance in the number of credit hours for which a Pell grant was awarded, the school must recalculate the student's eligibility for a Pell grant and campus-based funds based on a revised cost of attendance and enrollment status before the school performs the return of Title IV funds calculation. The school then performs a return of Title IV funds calculation using the student's revised Pell grant and campus-based award.
[*Federal Register* dated October 29, 2010, p. 66895]

A school that established a withdrawal date for a student may be required to treat the student as if he or she had not withdrawn, and may be required to disburse Title IV aid that was previously returned or canceled if any of the following events occur:

- A student withdraws from a standard term-based program offered in modules, fails to confirm the intent to attend a subsequent module within the same program and payment period, but the student resumes attendance in a subsequent module in the same program and payment period.

- A student withdraws from a non-term-based or nonstandard term-based program, fails to confirm the intent to attend a subsequent module in the same program and payment period or, as applicable, period of enrollment, but the student resumes attendance in a subsequent module in the same program and period that begins no later than 45 days after the end of the module that the student last attended.

- A student enrolled in a non-term-based or nonstandard term-based program offered in modules is not scheduled to attend a subsequent module in the same program and payment period or, as applicable, period of enrollment that begins no later than 45 days after the end of the module that the student last attended, and the student resumes attendance in a module in the same program and period that begins within that 45-day timeframe.

In the instances noted above, the school must apply the following rules to determine a student's eligibility for Title IV aid that the school may have previously returned or canceled due to the student's withdrawal:

- For a student who resumes attendance in the same standard term-based program or a nonstandard term-based program offered in modules, the school must determine the student's eligibility for Title IV aid in accordance with the rules for a student who withdraws from and resumes attendance in the same term-based credit-hour program offered in modules before the end of the payment period or, as applicable, period of enrollment. See Subsection 8.7.G for further information.

- For a student who resumes attendance in the same non-term-based credit-hour program offered in modules, the school must determine the student's eligibility for Title IV aid in accordance with the rules for a student who withdraws from and resumes attendance in the same non-term-based credit-hour program within 180 days. See Subsection 6.3.F for more information.

[§668.22(a)(2)(iii); *Federal Register* dated October 29, 2010, p. 66894]

See Subsection 9.5.A for additional information about the values used to calculate the percentage of the payment period completed when a student withdraws from a credit-hour program offered in modules.

### Documenting and Reporting Withdrawal Dates

The school must maintain documentation of the withdrawal date as of the date the school determines the student withdrew.
[§668.22(c)(4)]

The school must report the withdrawal date to the lender. This date determines the beginning of the borrower's grace period or repayment period. A withdrawal date must consist of month, day, and year.
[§682.605(b) and (c)]

### Date of Determination of a Student's Withdrawal Date

The date of determination (i.e., the date on which the school makes the determination that the student has withdrawn) is a critical component in the return of Title IV funds calculation. This date is determined as follows:

- For a student who provides official notification of his or her withdrawal, the date of determination is the later of:

  - The student's withdrawal date, as determined by a school that is not required to take attendance.

  - The date the student notified the school that he or she withdrew.
    [§668.22(l)(3)(i)]

- For a student who does not provide notification of his of her withdrawal to the school, the date of determination is the date on which the school becomes aware that the student ceased attendance.
  [§668.22(l)(3)(ii)]

- For a student who does not return from an approved leave of absence, the date of determination is the earlier of:

  - The date the leave of absence ends.

  - The date the student notifies the school that he or she will not be returning. [§668.22(l)(3)(iii)]

- For a student who rescinds his or her official notification of withdrawal and subsequently does not complete the payment period or period of enrollment, the date of determination is the date the school becomes aware that the student did not or will not complete the payment period or period of enrollment. [§668.22(l)(3)(iv)]

- For a student who takes an unapproved leave of absence, the date of determination is the date that the student begins the leave of absence. [§668.22(l)(3)(v)]

*Time Frames Applicable to the Date of Determination*

For a student who does not provide official notification of his or her withdrawal, the school must determine the student's withdrawal date within 30 days from the earliest of:

- The end of the payment period or period of enrollment for which the student was charged.

- The end of the academic year during which the student withdrew.

- The end of the educational program from which the student withdrew.

*Note:* Special rules may apply to the maximum time frame for a school's determination that a student withdrew from a program offered in modules. See the subheading *Withdrawal from a Program Offered in Modules* in this subsection for more information.

A school must return Title IV program funds no later than 45 days after the date of determination. If the student is eligible for a post-withdrawal disbursement, it must be offered to the student or, in the case of a parent PLUS loan, the parent, within 30 days of the date of determination.

*Treatment of a Title IV Credit Balance When a Student Withdraws*

If a student withdraws and has a Title IV credit balance on his or her account, the school must not deliver any portion of the credit balance to the student or return any portion of the credit balance to the Title IV student aid programs before it completes a return of Title IV funds calculation (see Subsection 8.8.D).

*For Schools Required to Record Attendance*

A school that is required to record attendance must have procedures in place to determine when a student withdraws. If a student notifies the school of his or her intent to withdraw prior to the date that the school would normally determine that the student withdrew, the withdrawal date is the date that the student notified the school of his or her intent to withdraw. In addition, if the school has a policy that indicates when absences will be treated as withdrawals, the date of determination is the date specified in school policy as long as that date is no later than 14 days after the student's withdrawal date.

Except in unusual cases, if a student is absent without explanation, a school must determine whether the student withdrew no later than 14 days after the student's last date of academic attendance as determined from the school's attendance records. The school does not have to make a withdrawal determination if, during that 14-day period, the student verifies that he or she plans to return to school. [DCL GEN-04-12; 10-11 FSA Handbook, Volume 5, Chapter 2, p. 5-43]

## 9.5 Return of Title IV Funds

For each Title IV aid recipient who withdraws, the school must calculate the amount of Title IV assistance the student has earned. This amount is based upon the length of time the student was enrolled. The school must return any portion of unearned Title IV funds for which the school is responsible. The school must also advise the student of the amount of unearned Title IV grant aid that he or she must return, if applicable. The student (or parent, in the case of a parent PLUS loan) must repay any unearned funds that the school did not return according to the normal terms of the loan. To assist schools, the Department has provided Return of Title IV Funds worksheets.

Upon request, the school must provide to enrolled and prospective students:

- A copy of any refund policy with which the school is required to comply that addresses the return of unearned tuition and fees or other refundable costs paid by the student.

- The requirements and procedures a student should follow to officially withdraw from the school.

- A summary of the federal requirements for the return of Title IV funds, as detailed in §668.22.

[§668.43(a)(2) through (4)]

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 continue to comply with the requirements for the return of Title IV funds for any Title IV recipient who withdraws.
[§668.26(b)(7)]

## 9.5.A
## Return Amounts for Title IV Grant and Loan Programs

If a student has completed more than 60% of the payment period, he or she is considered to have earned 100% of the Title IV grant and loan aid received for the payment period. In this case, no funds need to be returned to the Title IV aid programs.
[§668.22(e)(2)(ii)]

However, if a student withdraws before completing more than 60% of the payment period or period of enrollment, the amount of any Title IV loan and grant aid the student received for the payment period (or period of enrollment) must be recalculated to reflect the portion of the payment period that he or she completed prior to withdrawal. The unearned Title IV loan and grant aid for the percentage of the payment period not completed must be returned to the applicable Title IV aid programs.
[§668.22(e)(2)(i)]

If a student does not begin attendance at the school and the school has credited the student's account or delivered any Title IV funds directly to the student, the school must return all of those funds to their respective program(s). Those funds must be returned as soon as possible, but no later than 30 days after the date the school determined that the student did not begin attendance. The funds that the school must return are not a student Title IV liability and will not affect the student's Title IV eligibility. However, school charges not paid by financial aid are a student liability owed to the school and subject to its own collection process.

If the school provides a bookstore voucher for a student to obtain or purchase necessary books and supplies, those expenses for the required course materials are considered school charges because the student does not have a real and reasonable opportunity to purchase the materials from any other source. The school must include those charges as school charges in determining the portion of unearned Title IV aid that the school is responsible for returning. (See the 09-10 FSA Handbook, Volume 5, pp.10-12 for more information on when a student fails to begin attendance and Volume 5, Chapter 9, School Reporting Responsibilities and the Return of Title IV Aid.)
[§668.164(i)]

### Determining the Percentage of Payment Period/Period of Enrollment Completed

*Standard Term-Based Credit-Hour Programs*

Calculations for the return of Title IV funds must be based upon the payment period.
[§668.22(e)(5)(i)]

*Credit-Hour Programs Offered in Modules*

Special principles apply when determining the appropriate values used in the calculation of the percentage of the payment period or, as applicable, period of enrollment, completed in a credit-hour program offered in modules (see the glossary definition of "module").

If a student withdraws from a credit-hour program offered in modules, the payment period or, as applicable, period of enrollment, used in the denominator to calculate the percentage of the period completed includes the number of calendar days in all of the modules the student was scheduled to attend. (See Section 9.4, under the subheading *Withdrawal from a Credit-Hour Program Offered in Modules,* for more information about days that a student is scheduled to attend.) The payment period or, as applicable, period of enrollment begins on the first day of the first module that the student was scheduled to attend and ends on the last day of classes in the last module that the student was scheduled to attend. A school must exclude from the total number of calendar days in the payment period or, as applicable, period of enrollment the number of calendar days in which the student was on an approved leave of absence or any scheduled break of at least five consecutive days when the student was not scheduled to attend. The number of calendar days used in the numerator to calculate the percentage of the period completed begins on the first day of the first module that the student actually attended, ends on the last day the student was in attendance, and includes only the number of calendar days during which the student was in attendance.

For example, a school combines an intersession of three weeks of instructional time with a standard fall semester to form a single, combined term that the school treats, for the purposes of Title IV aid, as a standard semester for all students enrolled in the program (See Subsection 6.3.A). The school must treat the fall term and the intersession as modules in the single, combined term for all students enrolled in the program. A student enrolls in (i.e., is scheduled to attend) the fall semester *and* the 3-week intersession. If the student ceases attendance during the single, combined term, the denominator used in the calculation of the percentage of the payment period completed includes the number of calendar days in both the

fall term and the intersession, except for scheduled breaks of at least five consecutive days and days in which the student was on an approved leave of absence.
[§668.22(f)(1)(i); §668.22(f)(2)(i) and (ii); *Federal Register* dated October 29, 2010, pp. 66896 and 66897]

*Non-Term-Based Programs and Nonstandard Term-Based Credit-Hour Programs*

Calculations for the return of Title IV funds may be based upon the period of enrollment, rather than the payment period. Schools must consistently use either the payment period or the period of enrollment as the basis for all calculations for the return of Title IV funds for the following categories of students:
[§668.22(e)(5)(ii)(A) and (B)]

- Students who attend an educational program from the beginning of the period of enrollment or payment period.
  [§668.22(e)(5)(ii)(B)(1)]

- Students who reenter the school during a period of enrollment or payment period.
  [§668.22(e)(5)(ii)(B)(2)]

- Students who transfer into the school during a period of enrollment or a payment period.
  [§668.22(e)(5)(ii)(B)(3)]

There are differences in the payment period definition for a nonstandard term-based, credit-hour program that has substantially equal terms and a nonstandard term-based, credit-hour program that does not have substantially equal terms. See Section 6.3 for more information about defining the payment period in these programs.

*Credit-Hour Programs*

For term-based or non-term-based programs measured in credit hours, the total number of calendar days the student completes is divided by the total number of calendar days in the payment period or period of enrollment:

$$\frac{\text{Total number of calendar days completed}}{\text{Total number of calendar days in the payment period/period of enrollment}}$$

[§668.22(f)(1)(i)]

For purposes of this calculation, "calendar days" refers to all days within the period, excluding scheduled breaks of 5 or more consecutive days. Scheduled breaks measure the time between the last day of scheduled classes and the next day that classes are held, and include weekends and any periods during which the student is on an approved leave of absence.
[§668.22(f)(2)(i) and (ii)]

If a student withdraws after a scheduled break, the following are examples of periods that must be excluded from the calculations:

- If a break begins on a Wednesday, no classes are held the following weekend, and classes resume on Monday, the weekend days are included in the break. By including the weekend, the break is 5 days long, and 5 days must be excluded from both the numerator and the denominator of the calculation.

- If a break begins after classes end on Friday and classes resume on Monday following a one-week break, both weekends are included in the break. This break is 9 days long, and 9 days must be excluded from both the numerator and the denominator of the calculation.

- If a break begins after classes end on Friday and classes resume on Monday following a one-week break and the student is granted an approved Title IV leave of absence for 30 days beginning on the Monday that classes resume, both weekends and the leave of absence are included in the break. The break, including the leave of absence, is 39 days long and 39 days must be excluded from both the numerator and the denominator of the calculation.

If a student withdraws prior to a scheduled break, the number of days in any scheduled break is excluded from the denominator. The numerator reflects the total number of calendar days the student completed. For example, if a student attends 20 days of a 90-day semester that includes one scheduled break of 7 consecutive days and the student withdraws prior to the break, the numerator of the calculation is 20 and the denominator is 83 (20/83 =.2409 completed).
[10-11 FSA Handbook, Volume 5, Chapter 2, pp. 5-83 to 5-86]

In a non-term-based credit-hour program, the ending date and the number of calendar days for a payment period or period of enrollment may vary from student to student depending on how quickly a student progresses through the program. If a student withdraws from a non-term-based credit-hour program where the completion date is dependent upon an individual student's progress, the school must project the completion date based on the student's progress as of the date of his or her withdrawal to determine the total number of calendar days in the period. If the student does not earn credits or complete lessons as he or

she progresses through the program, the school is required to have a reasonable procedure for projecting the completion date based on the student's progress before withdrawal.

If the completion date for all students in a non-term-based credit-hour program is the same, the total number of calendar days in the period will be the same for all students.
[DCL GEN-04-03; 10-11 FSA Handbook, Volume 5, Chapter 2, pp. 5-87 to 5-89]

*Clock-Hour Programs*

For programs measured in clock hours, the total number of clock hours the student was scheduled to complete as of the student's withdrawal date is divided by the total number of clock hours in the payment period or period of enrollment.

$$\frac{\text{Clock hours scheduled to be completed as of the withdrawal date}}{\text{Total number of clock hours in the payment period/period of enrollment}}$$

[HEA §484B(d)(2); DCL GEN-06-05]

*Rounding Requirements for All Programs*

In calculating the percentage of the payment period or period of enrollment completed, percentages are calculated to three decimal places. The third decimal is rounded up if the fourth decimal is 5 or above and rounded down if the fourth decimal is 4 or below. The only exception to this rule is that quotients of .6001 through .6004 are not rounded down. This exception recognizes that students who complete more than 60% of the payment period or period of enrollment have earned 100% of their Title IV aid. If the rounding rules were followed in this exception, the quotient, which is greater than 60%, would have been rounded to .60 and the student would not have earned 100% of his or her Title IV aid.
[10-11 FSA Handbook, Volume 5, Chapter 2, p. 5-50]

### Disbursed Aid

Disbursed aid consists of funds that have been credited to the student's account or delivered to the student. Disbursed aid is determined as of the date the school becomes aware that the student withdrew. Disbursed aid may include funds that were credited to the student's account prior to the school's knowing that the student had withdrawn or ceased attending, but after the student's last date of attendance.
[10-11 FSA Handbook, Volume 5, Chapter 2, p. 5-65]

### Aid That Could Have Been Disbursed

Title IV aid that could have been disbursed includes aid the school awarded to the student for the payment period or period of enrollment, but was not credited to the student's account or delivered to the student as of the date the school became aware the student withdrew. The student is required to have met all eligibility requirements for each applicable Title IV program in order for the Title IV aid for that program to be included as aid that could have been disbursed.
[10-11 FSA Handbook, Volume 5, Chapter 2, p. 5-65]

The school may include FFELP funds as aid that could have been disbursed in its return of Title IV funds calculation even if the school was prohibited from delivering the funds on or before the day that the student withdrew. This includes loan funds for a first-year, first-time undergraduate Stafford loan borrower who withdraws before completing the 30th day of his or her program of study. However, in all cases, the following conditions for making a late disbursement must be met in order for the school to include FFELP funds as aid that could have been disbursed in the return of Title IV funds calculation:

- Except in the case of a parent PLUS loan, the Department processed a valid Student Aid Report (SAR) or Institutional Student Information Record (ISIR) with an official expected family contribution (EFC) on or before the date of the student's withdrawal.

- The school certified the loan on or before the date of the student's withdrawal.

- The borrower signed the Master Promissory Note (MPN) prior to the date the school completes the return of Title IV funds calculation.
  [DCL GEN-05-16]

If a school is completing the return of Title IV funds calculation on a payment period basis, FFELP funds scheduled for disbursement in a subsequent payment period may not be included as aid that could have been disbursed.
[DCL GEN-04-03]

A school may be prohibited under late delivery provisions from making a post-withdrawal disbursement of FFELP funds even if the funds are included as aid that could have been disbursed in the return of Title IV funds calculation. Before making a post-withdrawal disbursement of FFELP funds, the school must determine that the borrower is eligible for a late delivery under the provisions in

Subsection 8.7.E. (See also Subsection 7.7.G for the late disbursement provisions applicable to lenders. [§668.164(g); DCL GEN-00-24; DCL GEN-04-03; 10-11 FSA Handbook, Volume 5, Chapter 2, p. 5-93]

*Inadvertent Overpayments*

An inadvertent overpayment exists when a school delivers Title IV funds to a student who is no longer in attendance. For purposes of completing a return of Title IV funds calculation, an inadvertent overpayment must be included as aid that could have been disbursed. The student must qualify for a late disbursement to be eligible to retain funds that were delivered as an inadvertent overpayment. If the student is ineligible for all or a portion of the inadvertent overpayment, the school must return the ineligible amount to the lender within 45 days of the date of the school's determination that the student withdrew. [HEA §484B(b)(1); DCL GEN-06-05; DCL GEN-04-03; 10-11 FSA Handbook, Volume 5, Chapter 2, pp. 5-68 to 5-69]

#### Aid Types to Be Included in the Return Calculations

When calculating the return of Title IV funds, the school must include the following Title IV funds, as applicable:

- Federal Perkins loan.
- Direct loan.
- FFELP loan.
- Federal Pell grant.
- TEACH grant.
- Federal Supplemental Educational Opportunity Grant (FSEOG), not including the nonfederal share of an FSEOG award if the school meets its matching share by the individual recipient method or the aggregate method.

[§668.22(a)(2)]

#### Aid Types to Be Excluded from the Return Calculations

When calculating the return of Title IV funds, the school must exclude amounts from the following Title IV programs, as applicable:

- Federal Work-Study.
- Leveraging Educational Assistance Partnership (LEAP).
- Special Leveraging Educational Assistance Partnership (SLEAP).
- Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP).
- Student Support Services (SSS).
- The nonfederal share of an FSEOG award if the school meets its matching share by the individual recipient method or the aggregate method.

[HEA §484B(a)(3)(C)(i); §668.22(a); DCL GEN-06-05]

#### Percentage of Title IV Aid Earned

The percentage of Title IV loan and grant aid earned by the student is equal to the percentage of the payment period or period of enrollment that the student completed as of the date of the student's withdrawal. (See the explanation of this calculation under the subheading "Determining the Percentage of the Payment Period/Period of Enrollment Completed" earlier in this subsection.)

#### Amount of Title IV Aid Earned by the Student

The amount of Title IV loan and grant aid earned by the student equals the amount of aid that was delivered to the student plus the amount of aid that could have been disbursed or delivered during the payment period or period of enrollment, multiplied by the calculated percentage of Title IV aid earned.

> Percentage of Title IV aid earned X (Total Title IV aid delivered + total Title IV aid that could have been disbursed or delivered) = Title IV aid earned
>
> [10-11 FSA Handbook, Volume 5, Chapter 2, p. 5-93]

#### Determining the Amount of Unearned Aid to be Returned

If the total amount of disbursed aid is greater than the amount of Title IV aid earned by the student, the amount of Title IV loan and grant aid that is unearned and must be returned is calculated as follows:

> Total Title IV disbursed aid – Title IV aid earned = Title IV loan and grant aid to be returned

Monetary amounts may be rounded normally, to the nearest cent. Return amounts, for both the school and the student, may be rounded to the nearest dollar.

When calculating the amount of loan funds to be returned to the lender, the school should use the net amount that was received from the lender (the gross amount minus the guarantee and origination fees) as the basis. The lender will adjust the guarantee and origination fees.

*Aid to Be Returned by the School*

The school must return the portion of unearned Title IV aid for which the school is responsible. The amount the school must return is the lesser of:

- The total amount of unearned aid.

- The amount that is equal to the total institutional charges incurred by the student for the payment period or period of enrollment multiplied by the percentage of unearned aid. The percentage of unearned aid is calculated by subtracting the percentage of funds earned from 100%.
  [10-11 FSA Handbook, Volume 5, Chapter 2, p. 5-102]

*Institutional Charges*

The charges incurred by the student may include tuition, fees, room and board, and other educationally related charges assessed by the school.

The institutional charges used in the return of Title IV funds calculation are always the institutional charges that were initially assessed the student for the payment period or period of enrollment, unless the school adjusted the student's institutional charges before the student withdrew (e.g., tuition was adjusted for a change in enrollment status).
[§668.22(g)(1)(ii) and (2)]

If the school waives all or some of the tuition and fees for certain students, the waiver of tuition and fees under the return of Title IV funds requirements must be consistent with the required treatment of the waiver for purposes of calculating the student's cost of attendance (COA) for Title IV purposes. (See Section 6.5.)
[DCL GEN-00-24]

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

The school should calculate the return of Title IV funds based upon the period for which it is charging. If a school chooses to calculate the amount of Title IV assistance on a payment period basis, for a non-term program or for a nonstandard term program, but the school charges for a period of enrollment longer than the payment period, the total charges incurred by the student are the greater of the following:

- The prorated amount of charges for the longer period.

- The amount of Title IV aid retained for charges as of the student's withdrawal date.

*Aid Delivered to a Student before Institutional Charges Are Paid*

School policy may result in Title IV funds being delivered to a student to assist him or her with living expenses with the expectation that institutional charges will be covered in a second or subsequent disbursement of Title IV aid. However, if the student withdraws before the school receives the second or subsequent disbursement, and the return of Title IV funds calculation indicates that the school must return funds, the school is still required to return the funds to the appropriate Title IV loan or grant program.
[§668.22(g); 10-11 FSA Handbook, Volume 5, Chapter 2, p. 5-102]

*Aid to Be Returned by the Student*

If the amount of unearned aid exceeds what the school must return, the student is responsible for returning unearned Title IV loan and grant aid. If there are unearned loan funds that must be repaid to a Title IV loan program, the student (or parent, in the case of a parent PLUS loan) returns those funds by normal repayment of the loan according to the terms and conditions of the promissory note. If there are unearned grant funds that must be repaid to a Title IV grant program, the student is obligated to return the grant overpayment amount that exceeds 50% of the total Title IV grant funds that the student received for the payment period or period of enrollment. The student is not required to return a grant overpayment for which the original balance was $50 or less. The $50 tolerance applies on a program-by-program basis.
[HEA §484B(b)(2); §668.22(h); DCL GEN-06-05]

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

**Death of a Student**

If a student dies during the loan period, the school must perform a return of Title IV funds calculation and must return all Title IV funds for which it is responsible.

However, the student's estate is not responsible for returning any unearned funds that would be the responsibility of the student to repay. A school may not under any circumstances make a late disbursement or a post-withdrawal disbursement of Title IV funds on behalf of a student who has died.
[10-11 FSA Handbook, Volume 5, Chapter 2, p. 5-101]

### Post-Withdrawal Disbursements

A post-withdrawal disbursement is a disbursement made to a student who has withdrawn but who has earned more aid than has been disbursed. Neither the school nor the student is required to return funds when the student is eligible to receive a post-withdrawal disbursement.
[§668.22(a)(4); §668.22(a)(5)(i)]

A post-withdrawal disbursement is different from a late disbursement (as described in Subsection 7.7.G) in the following ways:

- A late disbursement may be made if a student ceases to be enrolled at least half time but has not withdrawn. A post-withdrawal disbursement must be offered and, if accepted, must be made after an eligible student withdraws from all classes for the payment period or period of enrollment, as applicable.
  [§668.164(g)(3)(i), (ii), and (iii)]

- A post-withdrawal disbursement must exhaust available Title IV grant funds before utilizing available loan funds. A late disbursement has no such requirement.
  [§668.22(a)(5)(i)]

- A late disbursement of FFELP loan funds must be delivered within 180 days from the earlier of the end of the loan period or the date on which the student ceased to be enrolled at least half time. A post-withdrawal disbursement of loan funds must be delivered within 180 days after the date of the school's *determination* that the student withdrew. A post-withdrawal disbursement of Title IV grant funds must be delivered within 45 days after the date of the school's determination that the student withdrew.
  [§668.22(a)(5)(ii)(B)(1); §668.22(a)(5)(iii)(C); §668.164(g)(4)]

*Post-Withdrawal Disbursement of Grant Funds*

If outstanding charges exist on a student's account, a school may credit the student's account up to the amount of outstanding charges with any grant funds that make up the post-withdrawal disbursement. The school must deliver directly to a student any amount of a post-withdrawal disbursement of grant funds that is not credited to the student's account. The school must deliver a post-withdrawal disbursement of Title IV grant funds as soon as possible, but no later than 45 days after the date of the school's determination that the student withdrew. There is no requirement that a school obtain the student's permission before making a post-withdrawal disbursement of grant funds.
[§668.22(a)(5)(ii)(A)(1) and (B)(1)]

*Post-Withdrawal Disbursement of Loan Funds*

If the post-withdrawal disbursement includes loan funds, the school must first determine that the borrower is eligible for a late delivery under the provisions in Subsection 8.7.E. (See also Subsection 7.7.G for the late disbursement provisions applicable to lenders.) A student may receive all or a portion of a disbursement as a post-withdrawal disbursement provided that all of the following conditions are met:

- The student is not a first-year, first-time undergraduate Stafford loan borrower subject to delayed delivery requirements who withdrew prior to the completion of the first 30 days of his or her program of study.

- Except in the case of a parent PLUS loan, the Department processed a valid SAR or ISIR with an official EFC on or before the date of the student's withdrawal.

- The school certified the loan on or before the date of the student's withdrawal.
  [DCL GEN-04-03]

- The borrower signed the Master Promissory Note (MPN) for the loan subject to return of Title IV funds prior to the date the return of Title IV funds calculation was completed.
  [DCL GEN-05-16]

- The disbursement is not a second or subsequent FFELP loan disbursement, even if it was included in the return of Title IV funds calculation as aid that could have been disbursed.

- Within 30 days of the date of the school's determination that the student withdrew and prior to delivering the loan disbursement, the school notified the borrower in writing to:

  - Request confirmation for any post-withdrawal disbursement of loan funds that the school wishes to credit to outstanding school charges, identifying the type and amount of those loan funds and explaining that the borrower may accept or decline some or all of those funds.

  - Request confirmation for any post-withdrawal disbursement of loan funds that can be delivered directly to the borrower, identifying the type and amount of loan funds and explaining that the borrower may accept or decline some or all of those funds.

  - Explain that if the borrower does not confirm that loan funds may be applied to outstanding school charges, the borrower may not receive the direct delivery of any loan funds unless the school concurs.

  - Explain the obligation of the borrower to repay any loan funds he or she chooses to have applied to outstanding school charges or delivered directly to the borrower.

  - Explain that, if the borrower does not respond within 14 days of the date the notice was sent (or a later deadline set by school policy), the school will not deliver the loan funds, unless the school chooses to deliver the funds based on a late response.

  The deadline for a borrower to accept a direct delivery of a post-withdrawal disbursement and the deadline to accept the delivery of a post-withdrawal disbursement to cover outstanding school charges must be the same. If the borrower submits a timely response that confirms that the loan funds may be credited to outstanding charges, or that he or she wishes to receive all or a portion of a direct delivery of funds, the school must deliver all loan funds, not only those used to pay school charges. If the borrower submits a late response, the school may deliver the funds as requested (provided the school delivers *all* of the funds accepted by the borrower), or the school may decline to deliver any funds. A post-withdrawal disbursement of loan funds may not be delivered later than 180 days after the date of the school's determination that the student withdrew. If the borrower submits a late response and the school opts *not* to deliver the post-withdrawal disbursement, the school must notify the borrower in writing of that decision. If the borrower does not respond to the notice of the availability of the post-withdrawal disbursement, no portion of the disbursement may be delivered. The school must document in the student's file the result of the post-withdrawal disbursement notification, and the final determination made concerning the disbursement. [§668.22(a)(5)(ii)(B)(1); §668.22(a)(5)(iii)(C); §668.164(g)(4)(i)]

A first-year, first-time undergraduate Stafford loan borrower who is subject to delayed delivery and withdraws before completing the 30th day of his or her program of study is prohibited from receiving any Stafford loan funds as a post-withdrawal disbursement even if the amount of the initial disbursement was included in the return of Title IV funds calculation as aid that could have been disbursed. In addition, when a student withdraws prior to completing the period for which the loan is intended, no portion of any second or subsequent FFELP loan disbursement may be delivered as a post-withdrawal disbursement even if the amount of the second or subsequent disbursement was included in the return of Title IV funds calculation as aid that could have been disbursed.
[DCL GEN-00-24; DCL GEN-04-03; 10-11 FSA Handbook, Volume 5, Chapter 2, p. 5-123]

After delivery of a post-withdrawal disbursement of funds, the school is *not* required to provide the notice to the borrower that is outlined in Subsection 8.2.B.
[§668.165(a)(2)]

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

## 9.5.B Processing Returned Funds

The following requirements apply for a school's processing of Stafford and PLUS loan funds to be returned:

- The school's portion of the funds to be returned that are attributable to a FFELP loan must be sent to the lender. 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 returned funds must be paid to that entity instead of the original lender. [§682.607(a)(1)(i) and (ii)]

- The school must return funds to the lender no later than 45 days after determining that the student withdrew. [HEA §484B(b)(1); DCL GEN-06-05]

- The school must provide to the borrower written notice that funds are being returned to the borrower's lender(s). Evidence of this written notice should be documented in the student's file. [§682.607(a)(2)]

Refunds allocable to FFELP loans because of policies that the school must follow for non-Title IV aid programs or for regulatory agencies, such as a state agency or an accrediting agency, must also be made within their prescribed time frames.

The school's return of FFELP funds is considered timely if, within 45 days of the date the school determines that the student withdrew, the school does one of the following: [§668.173(b)]

- Deposits or transfers the amount of funds to be returned into an account the school maintains for federal funds (see Section 8.1). [§668.173(b)(1)]

- Initiates an electronic funds transfer (EFT) for the amount of returned funds. [§668.173(b)(2)]

- Initiates an electronic transaction that informs the lender to adjust the borrower's loan account for the amount of returned funds. [§668.173(b)(3)]

- Issues a check for the returned funds. In this case, the school's records must show that the lender's bank endorsed that check within 60 days of the date the school determined that the student withdrew. [§668.173(b)(4)]

For more information on sufficient cash reserve requirements to make required returns of unearned Title IV funds, see Subsection 4.3.C. For more information on determining the student's withdrawal date, see Section 9.4. For more information on determining the amount of the Title IV funds to be returned, see Subsection 9.5.A.

A school may be assessed financial liability for the late return of Title IV funds or willful nonpayment of applicable refunds. A school must ensure that all funds that must be returned for Stafford and PLUS loans are paid to lenders within the required time frame. [§668.173(c); §682.607]

Guarantors recommend that the school's notice accompanying the return of funds to lenders include the following information:

- The student's name and Social Security number (SSN).

- The parent's name and SSN (for PLUS loan funds).

- The check number, if applicable.

- The amount of the returned funds.

- The loan type (subsidized Stafford, unsubsidized Stafford, or PLUS).

- The loan period.

- The student's withdrawal date, 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, if applicable.

- The reason for the return of funds (such as withdrawal, overaward, leave of absence).

- Whether or not subsequent disbursements should be canceled or rescheduled.

#### Applying Returned Funds

A school must return unearned Title IV funds to the Title IV programs. The school must ensure that returned funds are applied to eliminate outstanding balances on loans and grants for the payment period, or period of enrollment, in the following order:

- FFELP unsubsidized Stafford loans.

- FFELP subsidized Stafford loans.

- Direct unsubsidized Stafford loans.

- Direct subsidized Stafford loans.

- Federal Perkins loans.

- FFELP parent or Grad PLUS loans.

- Direct parent or Grad PLUS loans.

- Federal Pell grants.
- Federal Supplemental Educational Opportunity Grants (SEOGs).
- TEACH grants.

The school may calculate and make refunds for non–Title IV federal, state, private, or institutional student assistance programs according to the applicable policies. [§668.22(i); DCL GEN-98-28]

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.

## 9.5.C
## Responsibilities for Unpaid Refunds

The guarantor will notify the lender and the school if it receives an unpaid refund allegation. The notice will include all pertinent facts available to the guarantor regarding the allegation. For lender responsibilities applicable to unpaid refund requests received for both open and closed schools, see Subsection 13.8.H.

Within 60 days of receiving the allegation notice from the guarantor, the school must do one of the following:

- Make the required refund to the lender.
- Provide documentation to the guarantor to substantiate that the refund was already paid to the lender.
- Provide documentation to the guarantor to substantiate that the refund was not required.

If the school does not comply with one of the preceding requirements, relief will be provided to the borrower if the guarantor determines that the relief is appropriate. If the guarantor provides relief to the borrower, the guarantor will report to the Department the school's failure to pay the refund.
[§682.402(l)(5)(viii) and (ix); §685.216(a)(2)(ii)]

## 9.5.D
## Return of Title IV Funds Calculations for Students Subject to Verification

When a school completes a return of Title IV funds calculation for a student subject to verification, it must comply with the following rules:

- The school must complete the return of Title IV funds calculation in time to comply with the 45-day return of Title IV funds deadlines (see Subsections 9.5.A and 9.5.B).
- If the student does not provide all of the required verification documentation in time for the school to comply with the 45-day return of Title IV funds deadlines, the school must include as disbursed aid or aid that could have been disbursed only those funds not subject to verification (i.e., PLUS loans and unsubsidized Stafford loans).
- If the student does not provide all of the required verification documentation in time for the school to comply with the 45-day return of Title IV funds deadlines but does provide the documentation before the verification deadline, the school is required to perform a new return of Title IV funds calculation and make the appropriate adjustments.

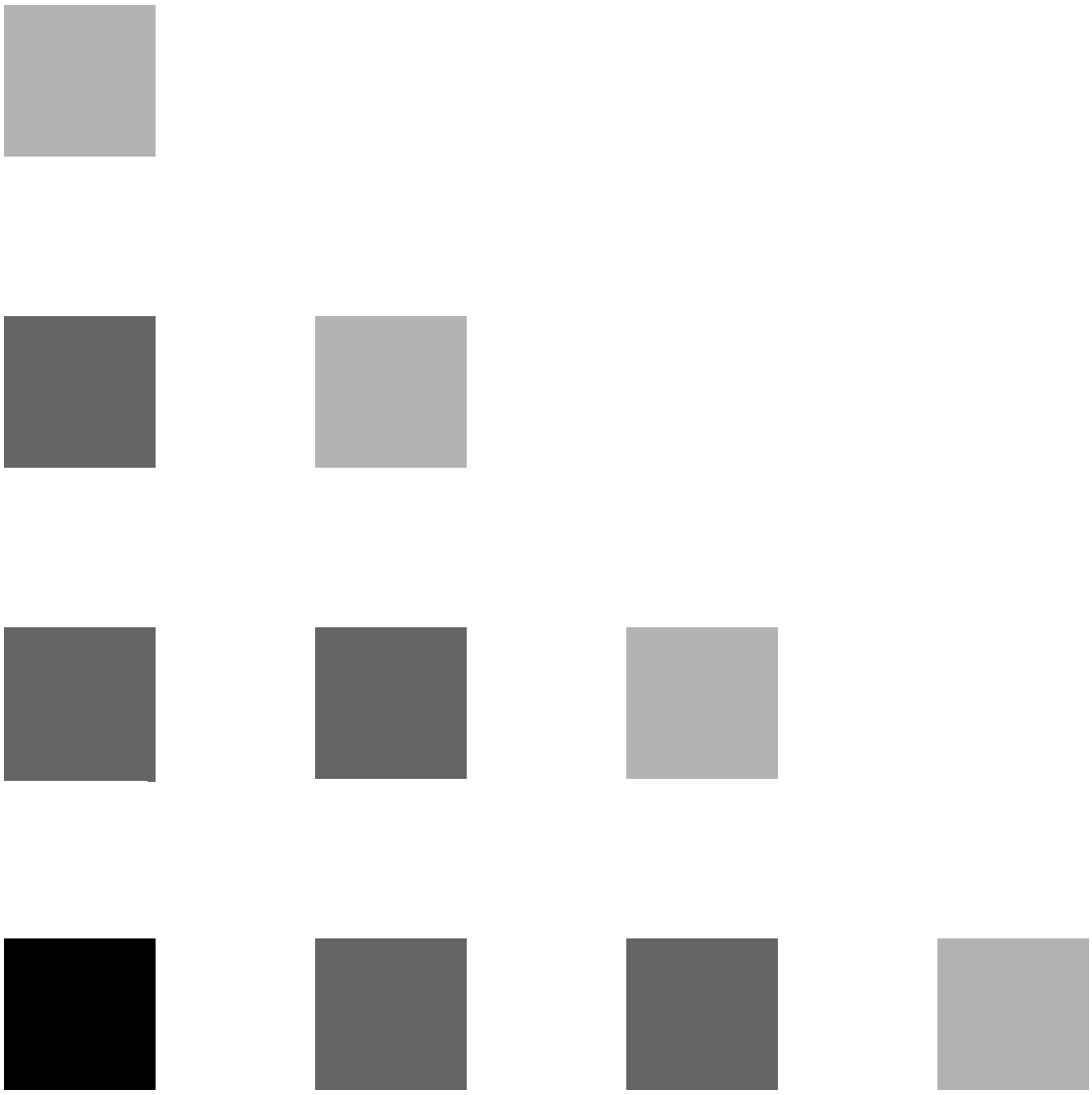
If the school is unable to offer the post-withdrawal disbursement to the student, or parent in the case of a parent PLUS loan, within the required 45 days after the date that the school determined that the student withdrew (see Subsection 9.5.A), the school must offer the funds as soon as possible. Also, whenever possible, the school must provide the student or parent with the minimum 14-day period to respond to the offer of a post-withdrawal disbursement.
[HEA §484B(a)(4); DCL GEN-06-05; DCL GEN-04-03]

# Tab Locator Page

## Remove this page and replace with tab divider.

# Tab Locator Page

## Remove this page and replace with tab divider.



# 10 Loan Servicing


| | | |
|---|---|---|
| 10.1 | Verifying Enrollment | 1 |
| 10.1.A | Lender Processing of Enrollment Changes | 2 |
| 10.1.B | Lender Reporting of Enrollment Changes | 3 |
| 10.2 | In-School Period | 4 |
| 10.3 | Grace Period | 4 |
| 10.3.A | Length of the Grace Period | 4 |
| 10.3.B | Payment of Interest during the Grace Period | 5 |
| 10.3.C | Military Extension of the Grace Period | 5 |
| 10.4 | Establishing the Repayment Start Date | 5 |
| 10.4.A | Stafford Loan Repayment Start Date | 5 |
| 10.4.B | PLUS and SLS Loan Repayment Start Date | 6 |
| 10.4.C | Aligning Repayment Start Dates for Stafford and SLS Loans | 6 |
| 10.5 | Establishing the First Payment Due Date | 6 |
| 10.5.A | Stafford Loan First Payment Due Date | 6 |
| 10.5.B | PLUS and SLS Loan First Payment Due Date | 7 |
| 10.5.C | Aligning First Payment Due Dates for Stafford and SLS Loans | 7 |
| 10.5.D | Revised Out-of-School Dates before Conversion to Repayment | 7 |
| 10.5.E | Revised Out-of-School Dates after Conversion to Repayment | 8 |
| 10.6 | Establishing Repayment Terms | 10 |
| 10.6.A | Determining the Borrower's Indebtedness | 10 |
| 10.6.B | Length of the Repayment Period | 10 |
| 10.6.C | Repayment Options | 11 |
| 10.6.D | Minimum Payment Requirements | 11 |
| 10.6.E | Adjusting the Borrower's Repayment Terms | 12 |
| 10.7 | Disclosing Repayment Terms | 12 |
| 10.7.A | Time Frame for Disclosure | 15 |
| 10.7.B | Dispute of Loan Terms | 15 |
| 10.8 | Establishing a Repayment Schedule | 15 |
| 10.8.A | Standard Repayment Schedule | 16 |
| 10.8.B | Graduated Repayment Schedule | 16 |
| 10.8.C | Income-Sensitive Repayment Schedule | 16 |
| 10.8.D | Income-Based Repayment Schedule | 17 |
| 10.8.E | Extended Repayment Schedule | 19 |
| 10.9 | Interest Charges | 19 |
| 10.9.A | Annual Variable Interest Rate Charges | 19 |
| 10.9.B | Reduced Interest Rates | 20 |
| 10.9.C | Excess Interest Rebates | 20 |
| 10.9.D | Payment of Accrued Interest on Loans Not Eligible for Federal Interest Benefits | 20 |
| 10.10 | Capitalizing Accrued Interest | 21 |
| 10.10.A | Permitted Capitalization | 21 |
| 10.10.B | Capitalization Frequency | 21 |
| 10.10.C | Capitalization of Delinquent Interest Payments | 22 |

# 10 Loan Servicing


10.11 Applying Borrower Payments and Funds Returned by the School ..... 23
10.11.A Applying Regular Borrower Payments ..... 23
10.11.B Applying Prepayments ..... 23
10.11.C Changing the Borrower's Payment Due Date ..... 24
10.11.D Applying Payments during Deferment or Forbearance ..... 24
10.11.E Applying Funds Returned by the School ..... 25
10.12 Lender Disclosures during Repayment ..... 25
10.13 Paid-in-Full Loans ..... 26

Chapter 10 describes servicing requirements for 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 15.

Servicing requirements begin when the loan is disbursed and encompass 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 (for more information on deferment and forbearance, see Chapter 11).
- Reporting transactions to the guarantor.
- Reporting information about the loan to a nationwide consumer reporting agency (see Subsection 3.5.C).
- Performing collection due diligence (see Section 12.2).
- Responding to borrower or endorser inquiries within 30 days of receiving the inquiry. [§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 12 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.

# 10.1 Verifying Enrollment

During the in-school, grace, and in-school deferment periods, guarantors and the Department, via the National Student Loan Data System (NSLDS), monitor the enrollment status of the borrower, or the student on whose behalf a parent has borrowed a parent PLUS loan, to determine whether the student maintains continuous enrollment on at least a half-time basis. As a result, schools are required to supply enrollment information to the NSLDS or to guarantors, lenders, holders, or their servicers, as applicable.

To monitor a student's enrollment, the guarantor or the NSLDS obtains enrollment information from the school. This enrollment verification is facilitated through the Enrollment Reporting process, as outlined in Section 9.2. Schools that have received a letter from the Department confirming successful submission of an enrollment Roster File to the NSLDS are exempt from the requirement to provide enrollment Roster Files directly to guarantors. The NSLDS forwards to guarantors, and in some cases lenders, the information received from the Enrollment Reporting process and each guarantor forwards it to lenders, holders, and/or servicers, as appropriate.

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 through the Enrollment Reporting process or another approved mechanism such as a third-party servicer.
- Another lender holding a loan for the same borrower.
- A new loan certification record for a repeat borrower.
- The borrower (these status changes must be verified by the school as outlined in Subsection 10.1.A).

  Some guarantors have additional requirements regarding enrollment status updates from borrowers. These requirements are noted in Appendix C.

The lender 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)]

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

## 10.1.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.

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

### Enrollment Information and the AGD

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/National Student Loan Data System (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 Enrollment Reporting 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.

### New Enrollment Information When Borrower Is No Longer Enrolled

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. [§682.209(a)(3)(iii)]

### Eligibility for In-School Deferment

If a lender receives reliable information that indicates that the borrower may be eligible for an in-school deferment, the lender must determine the borrower's eligibility. If the borrower is determined to be eligible, the lender must grant the in-school deferment. For more information on in-school deferment processing, see Section 11.6 and Subsections 11.6.A (Eligibility Criteria), 11.6.B (Deferment Documentation), 11.6.C (Length of Deferment), and 11.6.D (Summer Bridge Extension).

### Receipt Date of Enrollment Information

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.

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).

#### Confirmation of Enrollment Information

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.

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. [§682.208(c)(2)]

#### Record Retention

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.
[§682.414(a)(4)(ii)(E); §682, Appendix D]

## 10.1.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.

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 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 (AGD) other than the one previously reported.
- 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.

For information on reporting loan status changes to guarantors, see Subsection 3.5.D.

## 10.2
## 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).
  [§682.605(a)]

- 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.
  [§682.604(b)(2)(iii); §685.303(b)(2)(iii)]

- 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.
  [§682.604(b)(2)(iv); §685.303(b)(2)(iv)]

- 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.
  [§668.5(d)(3)(i)]

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

#### 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.
  [§682.209(a)(4)(i); §685.207(f)(1)]

- The date of withdrawal.
  [§682.209(a)(4)(ii); §685.207(f)(2)]

- 60 days from the last date established by the school for completing the program.
  [§682.209(a)(4)(iii); §685.207(f)(3)]

## 10.3
## 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.
[§682.209(a)(2)(iii); §685.207(b)(2)(i)]

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.

## 10.3.A
## 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 Subsection 10.4.C).
[§682.209(a)(2)(iii)]

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)(3)]

A 6-month grace period is authorized for all Stafford loans disbursed at a variable interest rate or a fixed rate of 6.8%, 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.
[HEA §428(b)(7); §682.209(a)(3)(i); DCL 94-L-171 Q&A #25]

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

## 10.3.B
## Payment of Interest during the Grace Period

For subsidized Stafford loans, interest accruing during the grace period is paid by the Department. For unsubsidized Stafford loans, the borrower is responsible for paying all interest that accrues during the life of the loan.
[§682.300(b)(1)(i)]

## 10.3.C
## Military Extension of the Grace Period

A Stafford or SLS borrower who has a loan in a grace period or a loan in an in-school status that would subsequently enter a grace period, and who is called or ordered to active duty, is entitled to one or more military extensions of the grace period for a period not to exceed 3 years for any single extended period. The maximum 3-year military extension for any single extended period includes the time period necessary for a borrower to resume enrollment at the next available and regularly scheduled period of enrollment. 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.

If the Stafford or SLS borrower resumes at least half-time enrollment at the end of a military extension, the borrower is entitled to a new grace period at the end of the in-school period. If the 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)(D); §682.209(a)(5); DCL GEN-01-13]

If the borrower is in repayment, deferment, or forbearance when he or she is called or ordered to active duty, see Section 11.3 for information regarding military deferment and Section 11.23 for information regarding mandatory administrative forbearance.

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

# 10.4
# Establishing the Repayment Start Date

The repayment start date is the date the repayment period begins. A lender must establish the repayment start date on a loan according to the requirements in this section.

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

## 10.4.A
## Stafford Loan Repayment Start Date

The repayment period on a Stafford loan begins on the day following the last day of the grace period. The lender must establish an accurate repayment start date in a timely manner and ensure the loan is converted to a repayment status immediately after the grace period expires.

A lender calculates the grace period end date as the day that is exactly 6, 9, 10, 11, or 12 months, as applicable based on the terms of the loan, following the date on which the student was last enrolled at least half time. The repayment period begins on the day following the grace period end date.
[§682.200; §682.209(a)(3); §685.207(b)(2)(i); DCL 96-G-287/96-L-186, Q&A #18]

## 10.4.B
## PLUS and SLS Loan Repayment Start Date

The repayment period on a PLUS or SLS loan begins on the date the loan is fully disbursed.
[§682.209(a)(2); §685.207(d)]

## 10.4.C
## Aligning Repayment Start Dates for 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 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. For information on grace periods, see Section 10.3.

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 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 Section 11.21.

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 authorizes repayment alignment on the 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 and the Master Promissory Note provide the borrower with an explanation of the difference in total costs; lenders are not required to provide further notice of this information (see Subsection 11.20.I for additional borrower notification requirements).
[§682.102(e)(3); §682.200; §682.209(a)(2)(iii); §682.210(c)(2) and (3); DCL GEN-92-21; DCL 96-G-287/96-L-186, Q&As #17–#20 and #24, and April 1996 supplement to the DCL]

## 10.5
## Establishing the First Payment Due Date

A lender must establish the first payment due date on a Stafford, PLUS, or SLS loan according to the requirements in this section. See Subsection 15.5.A for information about establishing the first payment due date for a Consolidation loan.

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); §682, Appendix D]

## 10.5.A
## Stafford Loan First Payment Due Date

The first payment due date for a Stafford loan must be no later than:

- 60 days after the beginning of the repayment period.
- 60 days after the last day of a deferment or forbearance period, unless the borrower makes a prepayment during this period that advances the due date (see Subsection 10.11.D).
- 60 days after the last day of a post-deferment grace period, unless the borrower makes a prepayment during this period that advances the due date (see Subsection 10.11.B).

- 75 days after the date the lender learns that the borrower's loan 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.
[§682.205(c)(1); §682.209(a)(3); §682, Appendix D]

## 10.5.B
## PLUS and SLS Loan First Payment Due Date

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.

- 60 days after the last day of a deferment or forbearance period, unless the borrower makes a prepayment during this period that advances the due date (see Subsection 10.11.D).

- 60 days after the last day of a post-deferment grace period, unless the borrower makes a prepayment during this period that advances the due date (see Subsection 10.11.B).

- 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 PLUS or SLS loan 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.
[HEA §433(b); §682.209(a)(2); DCL 96-G-287/ 96-L-186 Q&A #17–#19]

## 10.5.C
## Aligning First Payment Due Dates for Stafford and SLS Loans

The first payment due date for aligned repayment of Stafford and SLS loans must be no later than:

- 60 days after the beginning of the repayment period on the Stafford loan.

- 60 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 Q&A #17–#19]

## 10.5.D
## Revised Out-of-School Dates before Conversion to Repayment

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.
[§682.209; §682.411(b); §682, Appendix D]

### 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 Section 10.5).

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); §685.202(b); §682, Appendix D]

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, a Grad PLUS loan borrower, or a dependent student for whom a parent PLUS loan was 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 60 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. 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.
- 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.

## 10.5.E
## Revised Out-of-School Dates after Conversion to Repayment

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 2001 with a 6-month grace period ending in December 2001. The first payment due date was established as February 1, 2002. 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 2002.

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, 2002, and March 31, 2002, to the Department by an adjustment to the lender's LaRS report 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 10.11.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 a lender processes a revised out-of-school date that shows that the borrower should have entered repayment *earlier* than was previously reported, the lender may apply an administrative forbearance for the period from the adjusted (correct) repayment start date to the previous repayment start date. The lender may capitalize the interest accrued between the adjusted (correct) repayment start date and the previous date (see Sections 10.10 and 11.21). If the loan was delinquent before the lender processed the revised out-of-school date, the lender may not resolve that delinquency with the administrative forbearance (see Subsection 11.21.N).

EXAMPLE
A borrower has a subsidized Stafford loan. The borrower's previous graduation date was September 2001 with a 6-month grace period ending in March 2002. The borrower's first payment was scheduled for May 1, 2002; however, the borrower did not remit payments. The lender received information in June 2002 indicating that the borrower withdrew in June 2001. The end of the grace period must be revised to end in December 2001. 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, 2002 (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 Interest and Special Allowance Request and Report (LaRS report) 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.

## 10.6 Establishing Repayment Terms

In establishing a borrower's repayment terms, 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; §685.211(a)(2)]

## 10.6.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, Title IV funds returned by 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)]

## 10.6.B Length of the Repayment Period

The maximum allowable repayment period is calculated from the date on which the first payment is due. Generally, a borrower is allowed at least 5 but no more than 10 years from the date the first payment is due to repay each Stafford, SLS, and PLUS loan. However, the repayment period on a Stafford, SLS, or Grad PLUS loan may be greater than 10 years under an income-based repayment (IBR) plan. For a Consolidation loan, the repayment period may not exceed 30 years depending on the initial balance of the loan (see Subsection 15.5.C for information on Consolidation loan repayment provisions). In addition, a "new borrower" on or after October 7, 1998, may select an extended repayment schedule that allows for a repayment period of up to 25 years (see Subsection 10.8.E).
[§682.200; §682.209(a); §682.215(b)(8); §685.208(e)(1); §685.208(j); §685.221(b)(6)]

### Effect of Deferment and Forbearance

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, 2001
> Number of Payments: 120
> Last Payment Date: February 1, 2011
>
> If a borrower obtains an in-school deferment from August 25, 2001, to May 25, 2002, 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, 2011.

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 Subsection 10.6.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 11.20.
[§682.209(a)(6)(viii)(D); §685.205(b)(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.

> 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)]

#### Less Than 5-Year Repayment Period

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, request that the lender 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)(iv)]

## 10.6.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.

## 10.6.D
## 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. The minimum annual payment amount varies according to when the loan was first disbursed or the repayment schedule that the borrower selects:

- 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.
- For loans in repayment on or after July 1, 2009, the minimum annual payment amount under an income-based repayment (IBR) plan by a borrower with a partial financial hardship (PFH) is $0 (see Subsection 10.8.D for additional information regarding the loans that qualify and borrower eligibility criteria for IBR).

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). Except in the case of payment under IBR, 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). For information on the $5- and $10-rule under IBR, see Subsection 10.8.D. [§682.209(a)(8)]

#### Payments Smaller Than Minimum

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 subheading "Three-Times Rule" later in this subsection). In the case of IBR, a payment may be less than the monthly accruing interest.

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 11.22.A). [HEA §428(b)(1)(L)(i); §682.209(c)]

*Three-Times Rule*

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." In the case of IBR, the three-times rule does not apply.
[§682.209(a)(6)(ii); §685.208(g)(3) and (h)(2)]

*Interest Payments*

For loans that are repaid under a graduated, income-sensitive, income-based, or extended repayment schedule, the $360 and $600 annual payment requirements do not apply. Except in the case of an IBR plan, in no instance may the payment amount be less than the amount of interest due and payable. Under an IBR plan, the borrower's monthly payment amount may be insufficient to pay accrued interest and principal due or to repay the loan within the 25-year repayment period for loan forgiveness.
[HEA §428(b)(1)(L)(i); §682.209(a)(6)(iv) and (c); §685.208(a)(2)(iv)]

## 10.6.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 (see Subsection 10.8.C).
- The borrower selects an income-based repayment schedule (see Subsection 10.8.D).
- The borrower requests a change in his or her repayment schedule (see Section 10.8). 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 Section 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 (see Subsections 10.8.A and 10.8.B, respectively), 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); §685.205(b)(7)]

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); §682.211(i)(5)(ii)]

## 10.7
## Disclosing Repayment Terms

The lender must disclose repayment information in simple and understandable terms, in a statement provided to the borrower at or before the beginning of the repayment period. 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 detail in Subsection 10.7.A.

A lender must offer the borrower the choice of a standard, a graduated, an income-sensitive, an income-based, or, if applicable, an extended repayment plan. The lender must also inform the borrower that he or she is eligible for an income-sensitive repayment plan (including through loan consolidation), or may be eligible for an income-based repayment plan (except for a parent PLUS loan borrower or a Consolidation loan borrower whose Consolidation loan includes one or more parent PLUS loans). The lender must also provide information regarding the process by which the borrower can choose an income-sensitive or income-based repayment plan, and where and how the borrower may obtain more information on the income-sensitive and income-based repayment plans. If a lender chooses to include repayment choices with the repayment notification, the lender must ensure that the timing of this notice also meets the requirements of Subsection 10.7.A.
[HEA §428(b)(9); §682.205(h)]

### Undeliverable Repayment Disclosures

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.
  [HEA §433(f)]

If the repayment disclosure for a Stafford or SLS loan borrower is returned as undeliverable, thereby indicating that the lender has an invalid address for the borrower, the lender is not required to resend the repayment disclosure unless a valid address is obtained before the borrower's loan becomes 241 days delinquent. Despite this exception, the lender is encouraged to send the disclosure to the borrower in care of the borrower's parent(s) or legal guardian (if the address is known).
[§682.205(j)]

The lender 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 Sections 12.7 and 12.8 for more information on skip tracing requirements.

### Repayment Disclosure Formats

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 or servicer's name and the address to which correspondence and payments should be sent.
- A telephone number accessible at no cost to the borrower from within the U.S., 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 or the deferment period ends on a PLUS loan, if applicable.
- The estimated balance, including the estimated amount of interest to be capitalized, that is owed by the borrower as of the date the repayment period begins or the deferment period ends on a PLUS loan, if applicable.
- The actual interest rate on the loan.
- Information on any special loan repayment benefit offered for the loan(s), if applicable, including:
  - Eligibility for an interest rate reduction if the borrower repays the loan by automatic payroll or checking account deduction or if the borrower makes a specified number of on-time payments, and any other loan repayment benefits that could reduce the total repayment amount or the length of the repayment period.
  - Any limitations on the special loan repayment benefit, including, but not limited to:
    **(1)** Explicit information on the reasons the borrower may lose eligibility for the benefit.
    **(2)** For an interest rate reduction benefit, examples of the impact the interest rate reduction has on the length of the borrower's repayment period and the total repayment amount, and upon the request of the borrower,

the effect the change would have with respect to the borrower's total payoff amount and length of the repayment period.

**(3)** Whether and how the borrower can regain eligibility for a loan repayment benefit if the borrower loses the benefit.

- A description of all the repayment plans that are available to the borrower and a statement that the borrower may change from one plan to another at least annually during the repayment period. Details regarding the various repayment schedules are outlined in Section 10.8.

- 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, based either on a standard repayment plan or the repayment plan selected by the borrower. In the disclosure to a PLUS or an unsubsidized Stafford loan borrower, the lender may provide, in lieu of projected monthly payment amounts, sample projections of monthly payment amounts that assume different levels of borrowing and interest accrued during the student's in-school status. If the lender provides sample projections, the disclosure must also include the borrower's cost if the borrower authorizes the lender to capitalize the accrued interest or if the borrower pays the interest as it accrues. [HEA §433(b) and (d); DCL GEN-08-12/FP-08-10]

- 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 and the amount of interest already paid by the borrower, if applicable. The lender is not required to provide the interest estimate if it previously provided a PLUS or unsubsidized Stafford loan borrower with the projected monthly payment amounts.

- A statement that the borrower has the right to prepay all or part of the loan at any time, without penalty.

- A description of the options by which the borrower may avoid default or bring his or her loan out of default, including any relevant fees associated with such options.

- Additional resources, including nonprofit organizations, advocates, and counselors of which the lender is aware, where borrowers may receive advice and assistance on loan repayment. These resources include the Department's Student Loan Ombudsman.

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. In the case of a PLUS loan, the lender may rely on the PLUS promissory note and associated materials approved by the Department for purposes of meeting this requirement.

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(b) and (c); §682.205(c) and (d)]

## 10.7.A
## Time Frame for Disclosure

A lender must provide repayment disclosure to a borrower within a time frame applicable to the borrower's loan type.

#### Stafford Loans

The lender must notify a Stafford loan borrower of repayment terms no less than 30 days, and no more than 150 days, before the first payment due date. 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.

#### PLUS Loans

The lender must notify a PLUS loan borrower of repayment terms no less than 30 days, and no more than 150 days, before the first payment due date. Since the PLUS loan enters repayment when fully disbursed, the 30- and 150-day time frames are based on the repayment start date, regardless of any deferment that might otherwise postpone the first payment due date. See Section 10.7 for repayment disclosure requirements.
[§682.205(c)(1); Preamble to the Notice of Proposed Rulemaking, *Federal Register* dated July 23, 2009, p. 36571]

#### SLS Loans

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.

## 10.7.B
## Dispute of Loan Terms

If a borrower disputes the terms of a loan in writing, and the lender does not resolve the dispute, the lender must provide the borrower with information regarding an appropriate guarantor contact for the resolution of the dispute. [§682.208(c)(3)(i)]

## 10.8
## Establishing a Repayment Schedule

If the borrower elects to repay the loan through regular installments (see Subsection 10.6.C for repayment options), the lender must offer the borrower a choice of the following:

- A standard repayment schedule.
- A graduated repayment schedule.
- An income-sensitive repayment (ISR) schedule.
- An income-based repayment (IBR) schedule.
- An extended repayment schedule, if applicable.

Lenders must offer all borrowers their choice of repayment schedule no more than 6 months before the first payment due date. Details regarding repayment schedule options are outlined in Subsections 10.8.A through 10.8.E. For more information on Consolidation loan repayment, see Section 15.5.

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 ISR or an IBR 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 annually, except that a borrower may request IBR at any time.

A lender must combine, to the extent practicable, all FFELP loans owed by a borrower to the lender into a single account to be repaid under a single repayment schedule. For loans serviced in this manner, the word "loan" in this section means all of the borrower's loans that are combined by the lender into that account. However, for National Student Loan Data System (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)(xi); §685.210(b)]

## 10.8.A
## 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, income-based, graduated, or extended (if applicable) repayment schedule within 45 days after being notified by the lender to choose a repayment schedule.

- The borrower chooses an income-sensitive repayment schedule or an income-based 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); §685.210(a)(2)]

## 10.8.B
## 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 must 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)(B)]

## 10.8.C
## Income-Sensitive Repayment Schedule

If a borrower selects an income-sensitive repayment schedule, the borrower must provide the lender with information on the expected total monthly gross 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 applicable 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. When establishing these payment amounts, a lender must ensure that no single installment is more than three times greater than any other installment. [§682.209(a)(6)(ii)]

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 Section 11.23). [§682.209(a)(6)(viii)(D)]

## 10.8.D
## Income-Based Repayment Schedule

Beginning on July 1, 2009, a borrower may request to repay an eligible loan under an income-based repayment (IBR) plan. Eligible FFELP and Direct loans include the outstanding balances on all loans except:

- A defaulted loan.
- A FFELP or Direct parent PLUS loan.
- A FFELP or Direct Consolidation loan that repaid a FFELP or Direct parent PLUS loan.

If a borrower selects IBR, the lender must determine, based on the borrower's documentation, if the borrower has a partial financial hardship (PFH) for the initial year in which the borrower selects this repayment plan and annually for each subsequent year that the borrower remains in the plan. A PFH exists if the borrower has an annual payment amount based on the loan balance of all of his or her eligible, outstanding FFELP and Direct loans that exceeds 15% of the difference between the borrower's adjusted gross income (AGI) and 150% of the poverty guideline for the borrower's family size and state of residence. The annual payment amount is calculated under a standard repayment schedule and based on a 10-year repayment period. The loan balance used is the greater of the following:

- The amount due on all eligible loans when the borrower initially entered repayment (i.e., *standard-standard*).
- The amount due on all eligible loans when the borrower requests the IBR plan (i.e., *permanent-standard*).

The poverty guideline refers to the income by state and family size as published annually by the U.S. Department of Health and Human Services (DHHS). If a borrower is not a resident of a state listed in the poverty guidelines, the lender uses the DHHS poverty guideline for the 48 contiguous states.

To enable the lender to make this determination, the lender must collect either:

- A signed copy of the page(s) of the borrower's most recent federal tax return that contains the borrower's AGI. If the borrower's tax return was filed electronically, the lender must ensure that the copy obtained from the electronic submission process is signed. If the borrower provides a copy of his or her most recent federal tax return, the borrower is not required to provide copies of any other tax return forms, schedules, attachments, or worksheets, including W-2 Forms. Unless the lender has reason to believe that the information on the tax return is not accurate, it may rely upon the AGI amount reported on the tax return for purposes of the PFH determination. If the lender questions the accuracy of the signed copy of the tax return submitted by the borrower, it must require the borrower to provide the lender with a signed consent form (IRS Form 4506-T) or the tax transcript that is received after submitting Form 4506-T to the Internal Revenue Service (IRS). [Department's *Electronic Announcement* dated June 12, 2009]
- The tax transcript information from the IRS, which can be obtained by the borrower submitting a signed consent form (IRS Form 4506-T) for the disclosure of applicable AGI and other tax return information from the IRS directly to the IRS, or to the lender for submission to the IRS. [§682.215(e)(1); §685.221(e)(1)]

However, if the borrower's AGI is not available or if the lender believes that the borrower's AGI does not reflect the borrower's current income, the lender may use other documentation, provided by the borrower, to verify income.

For a married borrower filing taxes separately, AGI includes only the borrower's income. For a married borrower filing taxes jointly, AGI includes both the borrower's and spouse's income. A married borrower who files a joint tax return may include with his or her eligible loans any eligible loans owed by the borrower's spouse for purposes of determining PFH eligibility. In this situation, the lender must:

Step 1: Determine each spouse's percentage of the couple's total eligible loan debt.

Step 2: Adjust the borrower's monthly payment amount by multiplying the calculated total payment amount by the percentage calculated in Step 1.

If a borrower's loans are held by multiple lenders, the lender must adjust the monthly payment amount by multiplying the payment calculated in Step 2 by the percentage of the total outstanding principal balance of eligible loans held by the lender.

Step 3: Apply the PFH payment amount rules explained under the Payment Amount Calculation subheading below.

[§682.215(a)(1) and (b)(1); §685.221(a)(1) and (b)(1)]

The borrower must provide a self-certification of family size to the lender. If the borrower fails to certify family size, the lender must assume a family size of one. Family size includes the following:

- The borrower and the borrower's spouse.
- The borrower's children, including unborn children who will be born during the year for which the borrower certifies family size, if the borrower provides more than half of the children's support.
- Other individuals who, at the time the borrower certifies family size, live with the borrower and receive more than half of their support from the borrower and will continue to receive this support from the borrower for the year being certified. Support includes money, gifts, loans, housing, food, clothes, car, medical and dental care, and payment of college costs.

**Payment Amount Calculation**

The borrower's maximum annual payment to determine PFH is limited to no more than 15% of the amount by which the borrower's annual adjusted gross income exceeds 150% of the DHHS poverty guideline for the borrower's family size. The result is divided by 12 to obtain the monthly payment amount.

*PFH Eligibility and Payment Amount Calculation Example:*

A borrower has an AGI of $50,000, a family size of 5, total loans of $25,000, and is a resident of Virginia.

Step 1: Obtain the DHHS poverty guideline for the family size and state. For this example, the applicable DHSS poverty guideline is $25,790.

Step 2: Multiply the DHHS poverty guideline by 150% or $25,790 x 1.5 = $38,685.

Step 3: Subtract the result in step 2 from the borrower's AGI or $50,000 – $38,685 = $11,315.

Step 4: Calculate the borrower's maximum annual payment amount by multiplying the result of step 3 by 15% or $11,315 x .15 = $1,697.25.

Step 5: Determine the annual payment amount on the total of the borrower's loans based on a standard 10-year repayment schedule and the applicable interest rate. In this example, the borrower's total loan amount is $25,000 at an interest rate of 6.8% which results in an annual payment amount of $3,452.40.

Step 6: Since the annual payment amount in Step 5, $3,452.40, is greater than the maximum annual payment amount in Step 4, $1,697.25, the borrower has a partial financial hardship.

Step 7: To calculate the borrower's monthly payment amount, divide the result of Step 4 by 12 or $1,697.25/12 = $141.44.

If the lender does not hold all of the borrower's eligible loans, the borrower's monthly PFH payment amount is multiplied by the percentage of the borrower's total outstanding principal amount of eligible loans that are held by the lender making the determination of eligibility. For this calculation, the lender may access NSLDS to determine the outstanding principal amount of the borrower's eligible loans that are held by other lenders. If the result of this calculation is less than $5.00 at the lender

level, then the borrower's monthly PFH payment amount is $0. If the result of the calculation is equal to or greater than $5.00 but less than $10.00 at the lender level, then the borrower's monthly PFH payment amount is $10.00.

If a borrower selects an IBR plan, the lender must—unless the borrower requests otherwise—require that all eligible loans held by the lender be repaid under the IBR plan. If the borrower has multiple lenders and wants to repay all eligible loans under the IBR plan, the borrower must request IBR from each lender.

The lender must recalculate the monthly payment amount for a borrower when any of the following occurs:

- The borrower ceases to have a PFH or chooses not to make PFH payments but remains in the IBR plan.

- The borrower fails to provide a signed copy of his or her most recent federal tax return, or fails to renew or withdraws consent for tax transcript information from the IRS (via IRS Form 4506-T). See above for more information on the documentation requirements.

To recalculate the borrower's monthly payment amount under either of the two preceding bullets, a lender uses a standard repayment schedule for a 10-year repayment period based on the borrower's outstanding loan balance at the time that the borrower began repayment under the IBR plan. This monthly payment amount (a.k.a. *permanent-standard*) may result in a repayment period that exceeds 10 years.

If a borrower chooses to leave IBR, a lender recalculates the borrower's monthly payment amount by using a standard repayment schedule for the time remaining on a 10-year repayment period based on the borrower's outstanding loan balance at the time the borrower elects to leave IBR (a.k.a. *expedited-standard*). For a Consolidation loan, the monthly payment amount is recalculated, based on the time remaining up to a maximum of 30 years. (See Subsection 15.5.C for information on applicable repayment periods.)

## 10.8.E
## Extended Repayment Schedule

The extended repayment schedule is limited to "new borrowers" on or after October 7, 1998, with an outstanding balance of principal and interest in 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.
[HEA §428(b)(9)(A)(iv); §682.209(a)(6)(ix); Different rules apply to the FDLP. For more information, see §685.208(d) and (e)]

A "new borrower" on or after October 7, 1998, may qualify for an extended repayment schedule if the borrower has multiple lenders with an aggregate FFELP loan amount totaling more than $30,000. A lender must retain a record of the basis for determining a borrower's eligibility for an extended repayment schedule, if the total loan amount it holds is not more than $30,000.

## 10.9
## 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 a borrower's monthly partial financial hardship (PFH) payment amount under an income-based repayment (IBR) plan is not sufficient to pay the interest accruing on a subsidized Stafford loan, the Department pays the accrued interest that exceeds the scheduled monthly PFH payment amount during a consecutive 3-year period beginning with the repayment period start date when each loan enters IBR. This 3-year period excludes any period during which the borrower receives an economic hardship deferment.
[§682.215(b)(4); §685.221(b)(3)]

If the loan is an unsubsidized or a nonsubsidized Stafford loan, a PLUS loan, or an 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 15.3.D and Section 15.6.
[§682.202; §682.300]

## 10.9.A
## 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 Sections 7.4 and 7.5.

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 10.6.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.

## 10.9.B
## Reduced Interest Rates

If the borrower qualifies under Section 207 of the Servicemembers Civil Relief Act (SCRA) and requests an interest rate reduction in writing, the lender is required to reduce the interest rate on any loan that is accruing interest at a higher rate, so that it does not charge the borrower an interest rate that exceeds 6% for the period of the borrower's qualifying military service that occurs on or after August 14, 2008. For purposes of this provision, interest includes service charges, renewal charges, fees, or any other charges (except for actual insurance) with respect to the loan. A borrower may qualify for the 6% rate if all of the following criteria are met:

- The borrower has an outstanding Stafford, PLUS, or Consolidation loan that was made prior to the date that the servicemember entered active duty military service.
- The borrower is the only borrower, a comaker on the loan, or an endorser on an outstanding PLUS loan.
- The borrower, comaker, or endorser requests the reduced interest rate in writing and provides to the lender a copy of his or her initial military orders and any orders that extend military service.
- The borrower provides the written request and documentation not later than 180 days following the last date of the borrower's qualifying military service.

The lower interest rate applies to an endorser if the endorser is an eligible servicemember who signed the PLUS MPN Endorser Addendum before the start date of his or her qualifying military service.
[HEA §428(d); DCL GEN-08-12/FP-08-10]

When the borrower's, comaker's or endorser's period of military service ends, the lender is not permitted to assess any additional charge or fee on the loan to compensate for the difference between the applicable interest rate and the maximum permissible charges under the SCRA.
[*Federal Register* dated July 23, 2009, p. 36565]

Also, a lender may choose to charge a borrower an interest rate that is lower than the maximum interest rate permitted by statute (statutory rate). If the lender charges a lower rate, the lender must ensure that reports to the Department (such as the Lender's Interest and Special Allowance Request and Report [LaRS report]) are adjusted appropriately. (See Subsection 7.4.B regarding lender disclosure requirements when offering lower interest rates.) If a lender chooses to charge a lesser interest rate, it must notify the borrower, at the time the lower interest rate is offered, that the lower interest rate ends on the date the loan is purchased by the guarantor as a default or ineligible borrower claim. The revocation of the lower interest rate at the point of default does not apply to an interest rate that is reduced as a result of the SCRA. The loan will revert to the applicable statutory rate as of the date the defaulted loan or ineligible borrower claim is purchased.

## 10.9.C
## Excess Interest Rebates

Effective for loans first disbursed on or after April 1, 2006, lenders are required to refund excess interest on Stafford, PLUS, and Consolidation loans for any quarter in which the applicable interest rate of the loan exceeds the special allowance support level. See Figure A-3 and Figure A-4 for further information on the current calculation of excess interest rebates.

For historic information about previous Stafford loans that were eligible for excess interest rebates, and the conversion of these loans to a variable interest rate, see Section H.2.

## 10.9.D
## 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 borrower's signature on a Master Promissory Note (MPN) authorizes the lender to capitalize unpaid accrued interest on all of the borrower's FFELP loans as permitted under the Higher Education Act and federal regulations (see Section 10.10 for information about capitalizing accrued interest).

## 10.10 Capitalizing Accrued Interest

Capitalization of interest on all FFELP loans is permitted under the terms of the promissory note and federal regulations. A lender capitalizes interest by adding accrued interest to the loan's principal balance.

## 10.10.A Permitted Capitalization

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, except a period of administrative forbearance granted to collect documentation of a deferment, forbearance, change in repayment plan, or loan consolidation (see Section 11.21).

A lender also is permitted to capitalize the outstanding accrued interest without the written consent of the borrower during the following periods of administrative forbearance:

- Between the original repayment start date and the revised start date, including a situation when the lender, after converting the loan to repayment, learns of a new out-of-school date that is earlier than was previously reported.

- The period during which payments were made but subsequently returned due to a borrower's death or total and permanent disability.

- When collection activities on a loan were suspended pending *(a)* the outcome of a bankruptcy action, closed school, false certification, unpaid refund, or spouses and parents of victims of September 11, 2001, discharge determination or *(b)* the receipt of documentation of a death, disability, closed school, false certification, unpaid refund, or spouses and parents of victims of September 11, 2001, claim or discharge request.

- The period during which the loan was held by the guarantor due to a claim purchase. The capitalization may include interest accrued from date of claim payment through the repurchase date. The lender must document that the capitalization was a result of a repurchase. If the repurchase is due to the loan's loss of guarantee, see Subsection 13.3.D.

## 10.10.B Capitalization Frequency

To determine when the lender may capitalize interest, the lender should refer to the following instructions.

For a loan in repayment under an income-based repayment (IBR) plan, unpaid interest is capitalized if the borrower ceases to have a partial financial hardship (PFH) or leaves IBR and is placed on the expedited-standard repayment schedule.
[§682.215(b)(5); §685.221(b)(4)]

#### Subsidized and Unsubsidized Stafford Loans First Disbursed on or after July 1, 2000

The lender may capitalize unpaid interest only as follows:

- When the loan enters repayment.

- When a deferment ends.

- When a forbearance ends.

- When the loan defaults.
[§682.202(b)(4)(ii)]

#### Unsubsidized Stafford Loans First Disbursed October 7, 1998, to June 30, 2000, Inclusive

The lender may capitalize unpaid interest only as follows:

- When the loan enters repayment.
- When the grace period ends.
- When a deferment ends.
- When a forbearance ends.
- When the loan defaults.
  [HEA §428H(e)(2)(ii)]

#### Subsidized Stafford Loans First Disbursed Prior to July 1, 2000, Unsubsidized Stafford Loans First Disbursed Prior to October 7, 1998, and All PLUS and Consolidation Loans

A lender may capitalize the interest that accrues during in-school, grace, deferment (except in-school deferment for Consolidation loans), 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 disbursement was made to the date the repayment period begins, on a PLUS loan.
- 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. [§682.202(b)]

#### Consolidation Loans with In-school Deferments

Unsubsidized interest that accrues on a Consolidation loan during an in-school deferment may only be capitalized at the end of the deferment period.

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.

## 10.10.C Capitalization of Delinquent Interest Payments

If a borrower with an unsubsidized or a 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 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 13.6.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.

# 10.11 Applying Borrower Payments and Funds Returned by the School

A lender must ensure that all payments made by a borrower and any funds returned by the school are posted accurately and promptly to the borrower's loan in accordance with the requirements of this section.

## 10.11.A Applying Regular Borrower Payments

Except for payments made under an income-based repayment (IBR) plan, 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. Under IBR, a lender must apply a payment received first to accrued interest, then to collection costs and late charges, 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 these 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. Under an IBR plan, a borrower may have a monthly payment amount of zero. Even though the borrower is not required to make a payment, the lender acknowledges that the borrower is fulfilling the monthly payment obligation by advancing the due date to the next month. If a borrower with a payment amount of zero pays an amount greater than zero, the lender acknowledges that the borrower is fulfilling a single monthly payment obligation by advancing the due date to the next month. For example, a borrower has a monthly payment amount of $0 and a due date of the 15th. Each month on the 15th, the borrower's payment is deemed to be satisfied. When appropriate, any amount (except a payment that exceeds a monthly payment amount of $0 under an IBR plan) that exceeds the borrower's scheduled payment amount should be applied as a prepayment, as outlined in Subsection 10.11.B.
[§682.209(b); §682.215(c); §685.211(a); §685.221(c)]

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.

## 10.11.B Applying 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. However, if the prepayment amount is intended for a loan being repaid under an income-based repayment (IBR) plan, the lender must apply the prepayment received first to accrued interest, then to collection costs and late charges, and finally to outstanding principal.
[§682.209(b)(2); §682.215(c); §685.211(a)(3)]

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 5.17).

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. A prepayment received on a loan being repaid under an IBR plan with a monthly payment amount of $0 must not be applied to future installments. 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)(2)(ii); §685.211(a)(3)]

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.

## 10.11.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 a forbearance agreement with the borrower. 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 forbearance agreement with 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)]

## 10.11.D
## Applying 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 10.11.B for additional requirements for providing the notice to the borrower.

## 10.11.E
## Applying Funds Returned by the School

Funds that the lender receives from a school must be applied to the unpaid principal balance of the loan but must not affect the borrower's next payment due date. How a lender processes the borrower's loan fees depends on which party originally paid the fees, as follows:

- If the lender deducted the federal default fee (or guarantee fee), and/or the origination fee from the borrower's loan proceeds, the lender must reduce the fee(s) proportionate to the returned amount.

- If the lender paid the federal default fee (or guarantee fee) and/or origination fee instead of deducting the fee(s) from the borrower's loan, the lender may retain the fee(s) and not refund the fee(s) to the borrower.

The lender must notify the guarantor promptly whenever funds returned by the school are applied to a loan and must provide the amount of the returned funds and the date the returned funds were 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 7.8.C and 7.9.C for more information about the refund of fees.
[§682.202(c)(7) and (d)(4)]

Funds received from the school 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 funds from a school for a loan it no longer holds (including a loan paid in full by refinancing or consolidation), the lender must transmit the funds 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 funds, the reason the funds were returned (if noted by the school), and the date the lender received the funds. The new holder must apply the funds to the borrower's unpaid principal balance with an effective date that reflects the date the previous holder received the funds from the school. The new holder also must notify the borrower promptly in writing that the funds have been received.
[§682.209(i)]

If the lender applies funds received from the school to the borrower's account 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 returned funds, 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 funds being returned by the school. School requirements for the return of Title IV funds are outlined in Section 9.5.

## 10.12
## Lender Disclosures during Repayment

A lender must provide a borrower in repayment a bill or statement that corresponds to each installment period for which a payment is due and that includes, in simple and understandable terms, each of the following:

- The original principal amount of the borrower's loan.

- The borrower's current balance, as of the time of the bill or statement.

- The interest rate on the loan.

- The total amount of interest that the borrower has paid on the loan since the last bill or statement.

- The aggregate amount the borrower has paid on the loan, as well as separate aggregate amounts identifying the interest paid, the fees paid, and the amount paid against the principal balance.

- A description of each fee charged for the most recent preceding installment period.

- The payment amount, the due date for the payment to avoid additional fees, and the amount of any such fees.

- The lender's or loan servicer's address and toll-free phone number for repayment options, payment, and billing error purposes.

- A reminder of the borrower's option to change repayment plans, a listing of the repayment plans available to the borrower, a link to the Department's Website for more information on the repayment plans, and directions to the borrower on how to request a change in repayment plan.

These disclosures may be provided to a borrower based on the lender's or loan servicer's current system methodology and, therefore, may be disclosed at the loan, account, or borrower level.

[HEA §433(e)(1); §682.205(c)(3); Preamble to the Notice of Proposed Rulemaking, *Federal Register* dated July 23, 2009, pp. 36571-36572; DCL GEN-08-12/FP-08-10]

#### Exception for Invalid Address

A lender is not required to send the disclosures listed above, including the bill or statement, if the lender does not have a valid address for the borrower. However, if the lender receives a valid address for the borrower before the borrower's loan becomes 241 days delinquent, the lender must resume sending the required bill or statement (the lender is not required to resend previously undeliverable bills or statements), as well as any other disclosure information not previously provided.
[§682.205(j)]

#### Required Lender Disclosure for a Borrower Having Difficulty Making Payments

If a borrower notifies the lender that he or she is having difficulty making scheduled payments, the lender must provide, in simple and understandable terms, a description of each of the following:

- The repayment plans available to the borrower, including how the borrower can request a change in repayment plan.

- The requirements for obtaining a forbearance on a loan, including costs associated with the forbearance.

- The other options available to the borrower to avoid default, including any fees or costs associated with those options.

[HEA §433(e)(2); DCL GEN-08-12/FP-08-10]

## 10.13 Paid-in-Full Loans

When a loan is paid in full by the borrower, the lender must either return the original or a true and exact copy of the promissory note to the borrower or notify the borrower that the loan is paid in full.

A lender must retain loan records for a period of not less than:

- 3 years after the date the corresponding loan is paid in full by the borrower.

- 5 years after the date the lender receives payment in full from any other source.

For more information on lender recordkeeping requirements for paid-in-full loans, see Subsection 3.4.A.

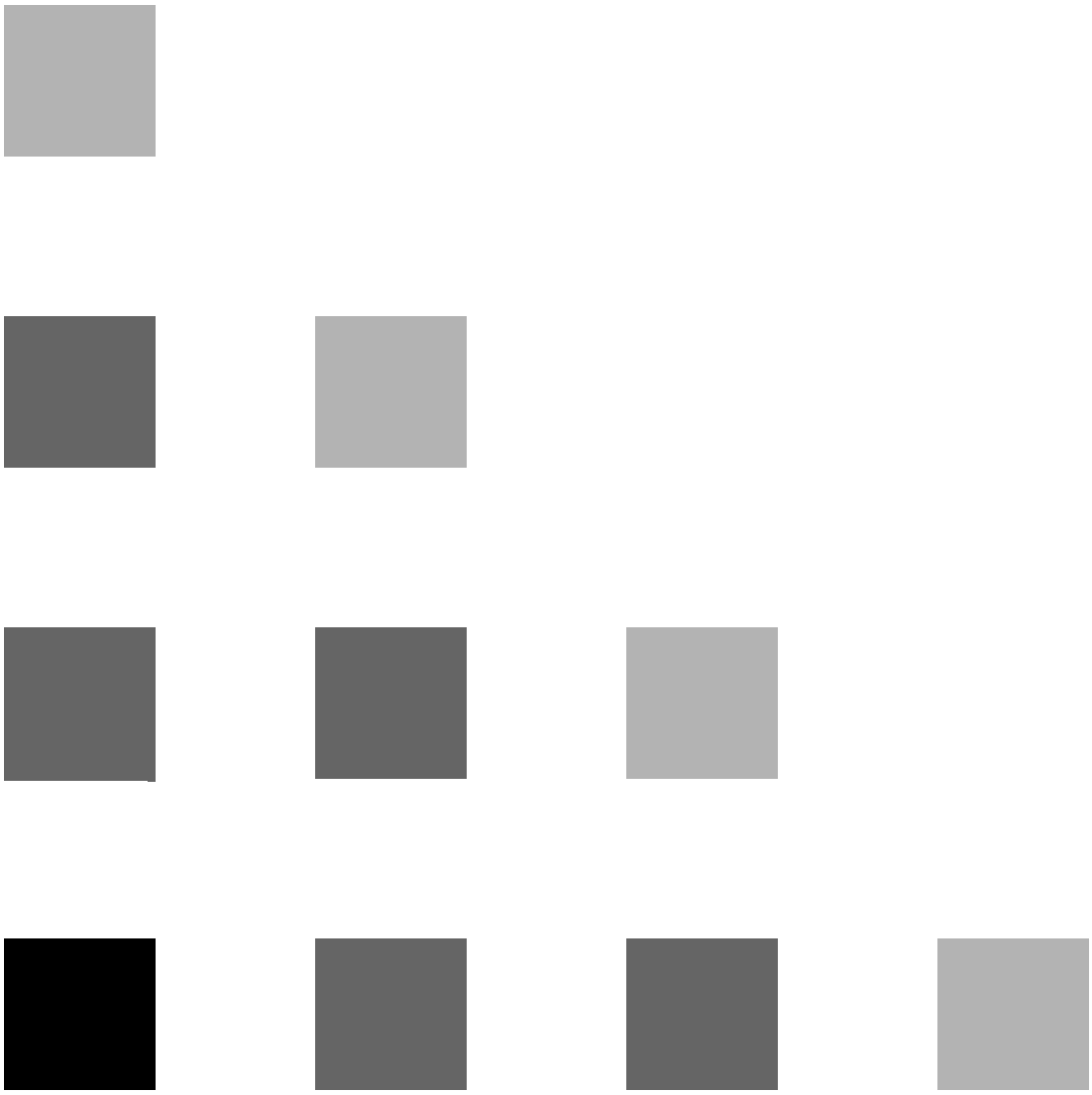
The lender must report to the guarantor all loans that are paid in full. For information on reporting paid-in-full loans to the guarantor, see Subsection 3.5.H.

# Tab Locator Page

## Remove this page and replace with tab divider.

# Tab Locator Page

## Remove this page and replace with tab divider.



# 11 Deferment and Forbearance


| | | |
|---|---|---|
| 11.1 | Authorized Deferment | 1 |
| 11.1.A | General Deferment Eligibility Criteria | 1 |
| 11.1.B | Documentation Required for Authorized Deferment | 3 |
| 11.1.C | Deferment Length | 3 |
| 11.1.D | Payment of Interest during Deferment | 4 |
| 11.1.E | Reporting Deferments | 4 |
| 11.1.F | Deferment of Loans in Delinquency | 4 |
| 11.1.G | Deferment of Loans in Default | 4 |
| 11.1.H | Post-Deferment Grace Period | 5 |
| 11.1.I | Establishing Repayment after Deferment | 5 |
| 11.1.J | Disclosure When Granting a Deferment on Unsubsidized Stafford or PLUS Loan | 5 |
| 11.2 | ACTION Program Deferment | 7 |
| 11.2.A | Eligibility Criteria—ACTION Program | 7 |
| 11.2.B | Deferment Documentation—ACTION Program | 7 |
| 11.2.C | Length of Deferment—ACTION Program | 8 |
| 11.3 | Armed Forces Deferment | 8 |
| 11.3.A | Eligibility Criteria—Armed Forces | 8 |
| 11.3.B | Deferment Documentation—Armed Forces | 8 |
| 11.3.C | Length of Deferment—Armed Forces | 8 |
| 11.4 | Economic Hardship Deferment | 9 |
| 11.4.A | Eligibility Criteria—Economic Hardship | 9 |
| 11.4.B | Deferment Documentation—Economic Hardship | 10 |
| 11.4.C | Length of Deferment—Economic Hardship | 10 |
| 11.4.D | Simplified Deferment Processing | 10 |
| 11.5 | Graduate Fellowship Deferment | 11 |
| 11.5.A | Eligibility Criteria—Graduate Fellowship | 11 |
| 11.5.B | Deferment Documentation—Graduate Fellowship | 11 |
| 11.5.C | Length of Deferment—Graduate Fellowship | 11 |
| 11.5.D | Simplified Deferment Processing | 11 |
| 11.6 | In-School Deferment, Summer Bridge Extension, and Post-Enrollment Deferment | 12 |
| 11.6.A | Eligibility Criteria—In-School | 12 |
| 11.6.B | Deferment Documentation—In-School | 13 |
| 11.6.C | Length of Deferment—In-School | 13 |
| 11.6.D | Summer Bridge Extension | 14 |
| 11.6.E | Post-Enrollment Deferment | 14 |
| 11.7 | Internship/Residency Deferment | 15 |
| 11.7.A | Eligibility Criteria—Internship/Residency | 15 |
| 11.7.B | Deferment Documentation—Internship/Residency | 15 |
| 11.7.C | Length of Deferment—Internship/Residency | 15 |
| 11.8 | Military Service Deferment | 16 |
| 11.8.A | Eligibility Criteria—Military Service | 16 |
| 11.8.B | Deferment Documentation—Military Service | 16 |
| 11.8.C | Length of Deferment—Military Service | 17 |
| 11.8.D | Simplified Deferment Processing | 17 |

# 11 Deferment and Forbearance


11.9 National Oceanic and Atmospheric Administration Corps Deferment ..... 18
11.9.A Eligibility Criteria—NOAA ..... 18
11.9.B Deferment Documentation—NOAA ..... 18
11.9.C Length of Deferment—NOAA ..... 18

11.10 Parental Leave Deferment ..... 18
11.10.A Eligibility Criteria—Parental Leave ..... 18
11.10.B Deferment Documentation—Parental Leave ..... 19
11.10.C Length of Deferment—Parental Leave ..... 19

11.11 Peace Corps Deferment ..... 19
11.11.A Eligibility Criteria—Peace Corps ..... 19
11.11.B Deferment Documentation—Peace Corps ..... 19
11.11.C Length of Deferment—Peace Corps ..... 19

11.12 Post-Active Duty Student Deferment ..... 19
11.12.A Eligibility Criteria—Post-Active Duty Student ..... 20
11.12.B Deferment Documentation—Post-Active Duty Student ..... 20
11.12.C Length of Deferment—Post-Active Duty Student ..... 20
11.12.D Simplified Deferment Processing ..... 21

11.13 Public Health Service Deferment ..... 21
11.13.A Eligibility Criteria—Public Health Service ..... 21
11.13.B Deferment Documentation—Public Health Service ..... 21
11.13.C Length of Deferment—Public Health Service ..... 21

11.14 Rehabilitation Training Program Deferment ..... 21
11.14.A Eligibility Criteria—Rehabilitation Training Program ..... 22
11.14.B Deferment Documentation—Rehabilitation Training Program ..... 22
11.14.C Length of Deferment—Rehabilitation Training Program ..... 22
11.14.D Simplified Deferment Processing ..... 22

11.15 Tax-Exempt Organization Volunteer Deferment ..... 23
11.15.A Eligibility Criteria—Tax-Exempt Organization Volunteer ..... 23
11.15.B Deferment Documentation—Tax-Exempt Organization Volunteer ..... 23
11.15.C Length of Deferment—Tax-Exempt Organization Volunteer ..... 23

11.16 Teacher Shortage Area or Targeted Teacher Deferment ..... 23
11.16.A Eligibility Criteria—Teacher Shortage Area ..... 24
11.16.B Deferment Documentation—Teacher Shortage Area ..... 24
11.16.C Length of Deferment—Teacher Shortage Area ..... 24

11.17 Temporary Total Disability Deferment ..... 24
11.17.A Eligibility Criteria—Temporary Total Disability ..... 25
11.17.B Deferment Documentation—Temporary Total Disability ..... 25
11.17.C Length of Deferment—Temporary Total Disability ..... 25

11.18 Unemployment Deferment ..... 25
11.18.A Eligibility Criteria—Unemployment ..... 26
11.18.B Deferment Documentation—Unemployment ..... 26
11.18.C Length of Deferment—Unemployment ..... 26
11.18.D Simplified Deferment Processing ..... 27

11.19 Working Mother Deferment ..... 27
11.19.A Eligibility Criteria—Working Mother ..... 27
11.19.B Deferment Documentation—Working Mother ..... 27
11.19.C Length of Deferment—Working Mother ..... 28

# 11 Deferment and Forbearance


| | | |
|---|---|---|
| 11.20 | Forbearance | 28 |
| 11.20.A | Forbearance Types | 28 |
| 11.20.B | Documentation Required for Authorized Forbearance | 29 |
| 11.20.C | Forbearance Length | 29 |
| 11.20.D | Payment of Interest during Forbearance | 29 |
| 11.20.E | Reporting Forbearances | 29 |
| 11.20.F | Forbearance of a Loan for a Comaker during the TPD Conditional Period | 30 |
| 11.20.G | Forbearance of Delinquent Loans | 30 |
| 11.20.H | Forbearance of Defaulted Loans | 30 |
| 11.20.I | Borrower Contact during Forbearance | 30 |
| 11.20.J | Establishing Repayment after Forbearance | 31 |
| 11.21 | Administrative Forbearance | 34 |
| 11.21.A | Bankruptcy Filing | 34 |
| 11.21.B | Borrower Ineligible for Deferment | 34 |
| 11.21.C | Closed School or False Certification by the School | 34 |
| 11.21.D | False Certification as a Result of the Crime of Identity Theft | 35 |
| 11.21.E | Cures | 35 |
| 11.21.F | Death | 35 |
| 11.21.G | Delinquency before a Deferment or Certain Forbearances | 36 |
| 11.21.H | Delinquency after a Deferment or Mandatory Forbearance | 36 |
| 11.21.I | Documentation Collection and Processing | 36 |
| 11.21.J | Forgiveness under Income-Based Repayment (IBR) | 36 |
| 11.21.K | Late Notification of Out-of-School Dates | 36 |
| 11.21.L | Loan Sale or Transfer | 37 |
| 11.21.M | Natural Disasters, Local or National Emergency, or Military Mobilization | 37 |
| 11.21.N | New Out-of-School Dates after Conversion to Repayment | 37 |
| 11.21.O | Repayment Alignment | 37 |
| 11.21.P | Repurchase of a Non-Bankruptcy Claim | 38 |
| 11.21.Q | Spouses and Parents of Victims of September 11, 2001 | 38 |
| 11.21.R | Total and Permanent Disability | 38 |
| 11.21.S | Unpaid Refund Discharge | 39 |
| 11.21.T | Repayment Plan Change | 39 |
| 11.22 | Discretionary Forbearance | 39 |
| 11.22.A | Reduced-Payment Forbearance | 40 |
| 11.23 | Mandatory Administrative Forbearance | 40 |
| 11.23.A | Death | 40 |
| 11.23.B | Exceptional Circumstances | 41 |
| 11.23.C | Repayment Accommodation | 41 |
| 11.23.D | Teacher Loan Forgiveness | 41 |
| 11.24 | Mandatory Forbearance | 42 |
| 11.24.A | Debt Exceeds Monthly Income | 42 |
| 11.24.B | Medical or Dental Internship or Residency | 42 |
| 11.24.C | National Service, Loan Forgiveness, Department of Defense Repayment, or Active Military State Duty | 43 |
| 11.24.D | Applying a Mandatory Forbearance Retroactively | 43 |

This page intentionally left blank.

Chapter 11 describes borrower eligibility criteria and lender processing requirements for deferment and forbearance of 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 15.

Servicing activities associated with processing deferments and forbearances include:

- Determining borrower eligibility for deferments and forbearances.
- Applying deferments and forbearances to an account.
- Establishing repayment after deferment or forbearance.
- Reporting transactions to the guarantor.
- Reporting the loan status or a deferment or forbearance to a nationwide consumer reporting agency (see Subsection 3.5.C).
- Responding to a borrower or endorser inquiry within 30 days of receiving the inquiry. Such inquiries may include requests for deferments, forbearances, and other information.
  [§682.208(c)(1)]

## 11.1 Authorized Deferment

Deferment is a tool available to borrowers to help them meet their loan repayment obligations. 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 Section 10.3).

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)]

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

## 11.1.A General Deferment Eligibility Criteria

There are several conditions under which borrowers qualify for 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 or rehabilitation training deferment, the parent borrower may qualify for deferment for all of his or her PLUS loans. See Section 11.6 for information regarding the eligibility criteria.
- If a PLUS loan is made to two parents as comakers (as applicable to a PLUS loan made prior to April 16, 1999), or a Consolidation loan is made to two spouses as comakers (as applicable to a Consolidation loan made from an application received by the consolidating lender prior to July 1, 2006), 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.
- If a PLUS loan is made to two parents as comakers or a Consolidation loan is made to spouses as comakers, and if the disabled comaker is in a conditional discharge status, the lender must defer the entire loan

based solely on the non-disabled comaker's deferment eligibility. The deferment period for the non-disabled comaker may not begin prior to the date the lender receives the disabled comaker's loan discharge application, or the notification from the guarantor that a loan discharge application was submitted to the guarantor, whichever is earlier. The deferment ends on the date that the non-disabled comaker's deferment eligibility ends, or the date on which the lender receives notice of the final discharge determination for the disabled comaker, whichever is earlier.

The loan holder may apply an administrative forbearance to any delinquency that exists prior to the start date of the deferment or, if the lender is processing the deferment retroactively, the forbearance may also be used to satisfy any delinquency that remains after the end date of the deferment. The administrative forbearance may be applied only for the time period that the nondisabled comaker is solely responsible for the loan's repayment and may not begin earlier than the date the loan holder receives either the disabled comaker's loan discharge application, or the notification from the guarantor that a loan discharge application was submitted to the guarantor, whichever is earlier. The administrative forbearance may not end later than the date the lender receives notification of the final discharge determination. The deferment and any associated administrative forbearance may cover a period less than, but never more than, the period of time the disabled comaker is granted a conditional discharge.

- 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.
  [§682.211(a)(1); §682.211(b)(1)]

- A consolidating lender must grant a deferment on the entire Consolidation loan, even if the lender establishes more than a single loan servicing record for the subsidized, unsubsidized, and HEAL portions of the loan. The deferment must be applied for the same period of time to each portion of the loan.

- In most cases, the borrower must request a deferment, either verbally or in writing, and 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 Sections 11.2 to 11.19.
  [§682.210(a)(4)]

- A delinquent borrower whose loan is not in default must be granted a deferment if the borrower is eligible for the deferment. See Subsection 11.1.F for more information on deferments and delinquent loans.
  [§682.210(a)(7)]

- A borrower whose loan is in default must be granted a deferment if the borrower's deferment eligibility began *before* the date of default. A borrower is not eligible for deferment of a loan that is in default if his or her deferment eligibility begins *after* the date of default, unless the borrower makes payment arrangements acceptable to the lender to resolve the default prior to the payment of a default claim by a guarantor. See Subsection 11.1.G for more information about deferment of defaulted loans.
  [§682.210(a)(8)]

#### Borrower-Specific Deferments

The Department has indicated that deferments generally are borrower-specific—not loan-specific. This means that time limits should generally be enforced for each borrower, rather than for a borrower's individual loans or groups of loans (see *Example 1* below). However, if all of the borrower's loans are paid in full (except through consolidation) 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 (see *Example 2* below).

*Example 1*
A borrower has used 36 months of unemployment deferment on loans A and B, then obtains additional loans before paying loans A and B in full. The borrower is not eligible for an unemployment deferment on the additional loans, even if loans A and B are subsequently paid in full.

*Example 2*
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 on the new loans.
[§682.210(a)(1)(ii)]

**"New Borrower" Categories**

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:
  - Whose first FFELP loan was made on or after July 1, 1987, and before July 1, 1993, or who had an outstanding balance on a loan obtained on or after July 1, 1987, and before July 1, 1993, when he or she obtained a loan on or after July 1, 1993.
  - Who obtains a Federal Consolidation loan made before July 1, 1993, that repays a FFELP loan disbursed before July 1, 1987, for a period of enrollment beginning before July 1, 1987.
- *"New Borrower" July 1, 1993*
  A borrower whose outstanding FFELP loans were all made on or after July 1, 1993, and when his or her first FFELP loan was made on or after July 1, 1993, had no outstanding FFELP loans that were made before July 1, 1993.

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.
[§682.210(b)(7)]

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.
[§682.210(a)(4)]

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 an administrative forbearance to cover delinquent payments resulting from the cancellation of all or part of the deferment. See Section 11.21 for information regarding the application of an administrative forbearance.
[§682.210(a)(7) and (9)]

## 11.1.B Documentation Required for Authorized Deferment

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. The lender must document a borrower's request (except for an in-school deferment) and eligibility for a deferment and retain the documentation as required under Subsection 3.4.A.

The common deferment forms are used widely for obtaining the signatures and information necessary to grant deferments (the form applicable to each deferment type is provided in the subsection entitled "Deferment Documentation" in Sections 11.2 to 11.19). 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 supporting documentation from an appropriate source (e.g., the borrower, school, guarantor, third-party servicer, or National Student Loan Data System [NSLDS])—provided the documentation supplies sufficient information to ensure that the borrower meets all eligibility criteria.

## 11.1.C Deferment Length

All deferments begin on the date the condition entitling the borrower to the deferment first existed, as determined by the lender, except an initial unemployment deferment that is based on a borrower's self-certification (see Subsection 11.18.A).
[§682.210(a)(5)]

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, the student's anticipated graduation date (AGD) certified by an authorized official of the school and updated by notice to the lender from the school or guarantor. For more information on in-school deferments, see Section 11.6. [§682.210(a)(6)(iv)]

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

## 11.1.D Payment of Interest during Deferment

If a subsidized Stafford loan, Consolidation loan, or any portion of a Consolidation loan is eligible for federal interest benefits, the borrower is not responsible for paying the interest that accrues on the loan or subsidized portion of 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 interest that accrues during periods of deferment and making arrangements with the lender to pay the interest in installments or to have it capitalized (see Subsection 10.9.D).
[§682.210(a)(3)]

## 11.1.E 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.

## 11.1.F Deferment of Loans in Delinquency

If a lender learns that a delinquent borrower may be eligible for a deferment, the lender must explain the conditions for obtaining the deferment and make the deferment option available. A lender must grant a deferment to a borrower whose delinquent loan is not in default if the lender receives the necessary documentation indicating that the borrower is eligible for the deferment. In many cases, backdating a deferment (as permitted) will resolve any delinquency that exists on a borrower's loan. If this is not the case, the lender may grant a discretionary or an administrative forbearance to resolve the delinquency (see Subsections 11.21.G and 11.21.H, and Section 11.22). If the lender does not grant the borrower a forbearance and the deferment or post-deferment grace period ends, the borrower resumes any delinquency status that existed when the deferment period began or ended, as applicable.
[§682.210(a)(7)]

## 11.1.G Deferment of Loans in Default

A lender *must* grant a deferment to a borrower whose loan is in default if the lender receives the necessary documentation indicating that the borrower's deferment eligibility began *before* the date of default (see Subsection 11.1.F for more information about deferment of delinquent loans). The lender must process the deferment and recall the default claim (if one was filed) as outlined in Subsection 13.2.B. If the loan has been purchased as a default, the lender may be required to repurchase the loan as outlined in Section 13.5.
[§682.210(a)(7)]

A lender *may* grant a deferment to a borrower whose loan is in default if the lender receives the necessary documentation indicating that the borrower's deferment eligibility begins *after* the date of default and the borrower makes payment arrangements acceptable to the lender that resolve the default prior to the payment of a default claim by a guarantor. Following are examples of payment arrangements the lender may consider acceptable:

- An administrative forbearance applied in conjunction with a deferment (see Subsection 11.21.G).
- A signed forbearance agreement for the entire period of delinquency not covered by the deferment. (See Subsection 11.20.H for information regarding forbearance granted after default.)
- Payments sufficient to fulfill delinquent payment amounts.
- A combination of forbearance and payments.
- A new signed agreement to repay the debt submitted with necessary deferment documentation to permit the lender to grant a 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 Subsection 13.2.B and Section 13.5, respectively). [§682.210(a)(8)]

## 11.1.H 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 6 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.
[§682.210(a)(2)(i)]

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.
[§682.210(a)(2)(i)]

A borrower that is eligible for interest benefits during a period of deferment is eligible for that subsidy during the post-deferment grace period.
[§682.210(a)(3)]

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.

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

## 11.1.I Establishing Repayment after Deferment

A borrower's first payment after deferment must be due no later than 60 days—plus the permissible 30-day extension in the case of a Stafford, PLUS, or SLS loan, as outlined in Subsections 10.5.A and 10.5.C—after the date on which an authorized deferment period ends, unless the borrower makes payments during the deferment period. For information on payments made during deferment, see Subsection 10.11.D.

A lender may grant an administrative forbearance to resolve any delinquency that exists before a borrower's deferment period begins or that remains after the borrower's deferment period ends. If the lender grants an administrative forbearance, the loan should enter repayment after the deferment or administrative forbearance period with a next payment due no later than 60 days after the deferment or administrative forbearance period end date. For information on deferment of delinquent loans, see Subsection 11.1.F. For information on granting an administrative forbearance for a period of delinquency before or after a deferment, see Subsections 11.21.G and 11.21.H.

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.
[§682.202(b)(6)]

## 11.1.J Disclosure When Granting a Deferment on Unsubsidized Stafford or PLUS Loan

Before or at the time a lender grants a deferment on an unsubsidized Stafford or PLUS loan, a lender must provide general information, including an example, to the borrower to assist the borrower in understanding the impact of the capitalization of interest on the loan principal and the total amount of interest to be paid over the life of the loan.
[HEA §428(b)(1)(Y)(iii)]

The lender must also notify the borrower of the option to pay the accruing interest or cancel the deferment and continue to make payments on the loan.
[§682.210(a)(3)(ii)]

## Deferment Eligibility Chart — Figure 11-1

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

| 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 | New[3,7] Loans 7/1/08 | Pre 7/1/93 Borrower[9] | New Borrower 7/1/93[10] |
| SCH | In-School: Full Time | None | • | • | • | • | • | • | • | • | • | • |
| | In-School: Half Time[8] | None | | • | • | | | • | • | • | • | • |
| | Post-Enrollment Deferment[7] | 6 Months | | | | | | | | • | | |
| EDU | Graduate Fellowship | None | • | • | • | • | • | • | • | | • | • |
| | Rehabilitation Training | None | • | • | • | • | • | • | • | | • | • |
| | Teacher Shortage | 3 Years | | • | | | | | | | | |
| | Internship/ Residency Training | 2 years | • | • | | • | | | | | | |
| TDIS | Temporary Total Disability[4] | 3 Years | • | • | | • | • | • | | | • | |
| PUB | Armed Forces or Public Health Services[5] | 3 Years | • | • | | • | | | | | | |
| | National Oceanic and Atmospheric Administration Corps[5] | 3 Years | | • | | | | | | | | |
| | Peace Corps, ACTION Program and Tax-Exempt Organization Volunteer | 3 Years | • | • | | • | | | | | | |
| UNEM | Unemployment | 2 years | • | • | | • | • | • | | | • | |
| | Unemployment | 3 Years | | | • | | | | • | | | • |
| PLWM | Parental Leave[6] | 6 Months | • | • | | | | | | | | |
| | Mother Entering/ Reentering Work Force | 1 Year | | • | | | | | | | | |
| HRD | Economic Hardship | 3 Years | | | • | | | | • | | | • |
| PLUS[3] | In-School: Full Time | None | | | | | | • | | • | | |
| | In-School: Half Time | None | | | | | | • | | • | | |
| | Post-Enrollment Deferment[7] | 6 Months | | | | | | | | • | | |
| | Rehabilitation Training | None | | | | • | • | • | | | | |
| MIL | Military Service[11] | None | • | • | • | • | • | • | • | | • | • |
| | Post-Active Duty Student[12] | 13 Months[13] | • | • | • | • | • | • | • | | • | • |

1 "New Borrower" 7/1/87 to 6/30/93: A borrower whose first FFELP loan was made on or after July 1, 1987, and before July 1, 1993, or who had an outstanding balance on a loan obtained on or after July 1, 1987, and before July 1, 1993, when he or she obtained a loan on or after July 1, 1993, or who had no outstanding balance on a Federal Consolidation loan made before July 1, 1993, that repaid a loan first disbursed before July 1, 1987.

2 "New Borrower" 7/1/93: A borrower whose outstanding FFELP loans were all made on or after July 1, 1993, and when his or her first FFELP loan was made on or after July 1, 1993, had no outstanding FFELP loans that were made before July 1, 1993.

3 Deferment for parent borrower who received a loan(s) between July 1, 1987, and June 30, 1993, during which the student for whom the parent obtained the PLUS loan(s) meets the conditions required for an in-school deferment. Upon request, a parent borrower may defer repayment on a parent PLUS loan(s) that was first disbursed on or after July 1, 2008, during the period in which the student for whom the parent obtained the PLUS loan(s) meets the conditions required for an in-school deferment.

4 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.

5 Borrowers are eligible for a combined maximum of 3 years of deferment for service in NOAA, PHS, and Armed Forces.

6 A parental leave deferment may be granted to a borrower in periods of no more than 6 months each time the borrower qualifies.

[7] A Grad PLUS borrower whose loan(s) was first disbursed on or after July 1, 2008, may receive a 6-month post-enrollment deferment beginning on the day after he or she no longer meets the conditions required for an in-school deferment. Upon request, a parent PLUS borrower may defer repayment on a parent PLUS loan(s) that was first disbursed on or after July 1, 2008, for a 6-month period that begins on the day after the parent or the student for whom the parent obtained the PLUS loan(s) no longer meets the conditions required for an in-school deferment.

[8] A borrower who received a Federal Consolidation loan before July 1, 1993, that repaid a loan made before July 1, 1987, or who had an outstanding balance on a FFELP loan obtained prior to July 1, 1987, when the Federal Consolidation loan was obtained, is eligible for in-school deferment only if the borrower attends school full time.

[9] A borrower with a Federal Consolidation loan made before July 1, 1993, or a borrower who receives a Consolidation loan on or after July 1, 1993, who has any outstanding FFELP loan(s) at the time of consolidation that was first disbursed before July 1, 1993.

[10] A borrower who receives a Federal Consolidation loan made on or after July 1, 1993, who has no outstanding FFELP loans at the time of consolidation that were made on or before July 1, 1993.

[11] A deferment may be granted to a borrower who is serving on active duty during a war or other military operation or national emergency (including qualifying National Guard duty). The borrower's military service must begin on or after October 1, 2007, or include that date.

[12] A deferment may be granted to a borrower called to active National or State duty who is a member of the National Guard or Reserves (including retired members) and who was enrolled at least half time at an eligible school at the time of, or within 6 months prior to, being activated. The borrower's military service must begin on or after October 1, 2007, or include that date.

[13] A post-active duty student deferment may be granted to a borrower for a period of no more than 13 months each time the borrower qualifies. There is no limit to how many deferments of this type a borrower may receive. If a borrower is also eligible for a military service deferment, the 13-month period must run concurrently with the 180-day post-military mobilization period.

## 11.2 ACTION Program Deferment

An ACTION Program deferment is available to a borrower who is engaged in full-time paid volunteer service with an organization participating in a program authorized under Title I of the Domestic Volunteer Service Act of 1973 (ACTION programs).
[§682.210(b)(2)(iii)]

## 11.2.A Eligibility Criteria—ACTION Program

This deferment is available only if the borrower has an outstanding balance on a FFELP loan that was made before July 1, 1993, or the borrower had an outstanding balance on a FFELP loan made before July 1, 1993, when he or she obtained a loan disbursed on or after July 1, 1993. The deferment is also available to a PLUS borrower if that borrower has 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.

[§682.210(l)]

## 11.2.B Deferment Documentation—ACTION Program

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

## 11.2.C
## Length of Deferment—ACTION Program

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. 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(a)(5)]

## 11.3
## Armed Forces Deferment

An Armed Forces deferment is available to a borrower who is serving on active duty status in the U.S. Armed Forces (the Army, Navy, Air Force, Marine Corps, and Coast Guard).
[§682.210(i)]

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

## 11.3.A
## Eligibility Criteria—Armed Forces

This deferment generally applies only to an active duty member of the U.S. Armed Forces who has an outstanding balance on a FFELP loan that was made before July 1, 1993, or who had an outstanding balance on a FFELP loan made before July 1, 1993, when the borrower obtained a loan disbursed on or after July 1, 1993. The deferment is also available to a PLUS borrower if that borrower has a PLUS loan that was 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 Armed Forces deferment. Such borrowers are considered to be actively serving in the military. For a Stafford loan 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 Subsection 10.3.C for information on military extension of the grace period.

A borrower or a borrower's representative must request the deferment and provide the lender with documentation establishing that he or she is serving a period of full-time active duty status in the U.S. Armed Forces. 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.

If a lender grants an armed forces deferment based on a request from the borrower's representative, the lender must notify the borrower that the deferment has been granted and that the borrower has the option to cancel the deferment and continue to make payments on the loan. The lender may also notify the borrower's representative of the outcome of the deferment request.
[§682.210(i)(5)]

## 11.3.B
## Deferment Documentation—Armed Forces

If a borrower requests an Armed Forces deferment, the lender must forward to the borrower the following common deferment form:

**PUB**
Public Service Deferment Request

## 11.3.C
## Length of Deferment—Armed Forces

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. 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 National Oceanic and Atmospheric Administration Corps (NOAA).
[§682.210(i)]

## 11.4
## Economic Hardship Deferment

An economic hardship deferment is available to a borrower who earns less than minimum wage or an amount equal to 150% of the poverty guideline applicable to the borrower's family size.

## 11.4.A
## Eligibility Criteria—Economic Hardship

This deferment is available only if the borrower had no outstanding balance on a FFELP loan as of the date he or she obtained a loan on or after July 1, 1993.

To qualify for this deferment, a borrower must request it and provide the lender with documentation that shows 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 or benefit 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.
   [*Federal Register* dated June 29, 1994]

3. The borrower is working full time and has a monthly 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 150% of the poverty guideline applicable to the borrower's family size, as published annually by the Department of Health and Human Services pursuant to 42 U.S.C. §9902.2 *(see Note below)*.

   For the purpose of this deferment, *family size* is defined as the number that is determined by counting the borrower, the borrower's spouse, and the borrower's children (including unborn children who will be born during the period covered by the deferment) if the children receive more than half of their support from the borrower. A borrower's family size also includes other individuals if, at the time the borrower requests the economic hardship deferment, the other individuals meet both of the following criteria:

   - Live with the borrower.

   - Receive more than half of their support from the borrower and will continue to receive this support from the borrower for the year the borrower certifies family size.

   Support includes money, gifts, loans, housing, food, clothes, car, medical and dental care, and payment of college costs.
   [§682.210(s)(6)(ix)]

4. 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 who had an outstanding balance on a FFELP loan that was made before July 1, 1993, or who had an outstanding balance on a loan made before July 1, 1993, when he or she obtained a loan disbursed on or after July 1, 1993. An economic hardship deferment is available to a "new borrower" who had no outstanding balance on a FFELP loan as of the date he or she obtained a loan 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:* 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 or more hours per week. For a period of deferment granted under item 3 above, the lender must require the borrower to submit evidence showing the amount of the borrower's monthly income. If the borrower does not have an income when applying for an economic hardship deferment under item 3, despite working full time as required, the borrower must provide a self-certifying statement, either on the deferment form or in a separate statement, indicating that he or she has no income. A borrower's monthly income is the gross amount the borrower received from employment, if applicable, and from other taxable sources, or one-twelfth of the borrower's adjusted gross income (AGI), as recorded on the borrower's most recently filed federal income tax return. Non-taxable income such as child support, life insurance proceeds, and gifts and bequests that are not included in the computation of the AGI should not to be treated as income for purposes

of determining eligibility for an economic hardship deferment. If the borrower resides in a foreign country and submits proof of income in foreign currency, the amounts must be converted to U.S. dollars before the lender determines deferment eligibility. Deferment eligibility for a borrower not residing in a state identified in the poverty guidelines is based on the poverty guideline for the 48 contiguous states.
[§682.210(s)(6)]

## 11.4.B
## Deferment Documentation—Economic Hardship

If a borrower requests an economic hardship deferment, the lender should forward to the borrower the following common deferment form:

**HRD**
Economic Hardship Deferment Request

Documentation should include pay stubs, a copy of the borrower's most recently filed federal tax return, or other official documents noting the borrower's income. 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.
[DCL GEN-98-16]

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.

## 11.4.C
## Length of Deferment—Economic Hardship

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. The deferment ends on the date the condition establishing the borrower's eligibility for the deferment ends. This deferment may be granted for periods of up to 1 year at a time and may be renewed for a total that, collectively, do not exceed 3 years. For a borrower who is serving as a volunteer in the Peace Corps, the deferment may be granted for the lesser of the borrower's full term of service or the borrower's remaining period of economic hardship deferment eligibility under the 3-year maximum.
[HEA §428(b)(1)(M)(iv); §682.210(s)(6); DCL GEN-98-16]

## 11.4.D
## Simplified Deferment Processing

A lender may grant an eligible borrower an economic hardship deferment based on information that the borrower has been granted an economic hardship deferment by another FFELP loan holder or the Department (for a Direct loan) for the same time period. The borrower must request the deferment either verbally or in writing but does not have to provide a completed economic hardship deferment form or the other required documentation listed in Subsection 11.4.B.

In granting the deferment in this manner, the lender may rely in good faith on the information obtained from another FFELP loan holder, the Department, or an authoritative electronic database maintained or authorized by the Department, unless the lender has information indicating that the borrower does not qualify for the economic hardship deferment. The lender must resolve any discrepant information before granting an economic hardship deferment in this manner.

If the lender grants the economic hardship deferment using this simplified process, it must notify the borrower that the deferment has been granted and that the borrower has the option to pay the interest that accrues on an unsubsidized FFELP loan or to cancel the deferment and continue to make payments on the loan.
[§682.210(s)(1)(iii) - (v)]

## 11.5
## Graduate Fellowship Deferment

A graduate fellowship deferment covers study under an eligible graduate fellowship program.
[§682.210(b)(1)(ii) and (d)]

## 11.5.A
## Eligibility Criteria—Graduate Fellowship

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:

- 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.

## 11.5.B
## Deferment Documentation—Graduate Fellowship

If a borrower requests a graduate fellowship deferment, the lender should forward to the borrower the following common deferment form:

**EDU**
Education Related Deferment Request

## 11.5.C
## Length of Deferment—Graduate Fellowship

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. The deferment ends on the date the borrower withdraws or completes the fellowship program, whichever is earlier.
[§682.210(d)]

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

## 11.5.D
## Simplified Deferment Processing

A lender may grant an eligible borrower a graduate fellowship deferment based on information that the borrower has been granted a graduate fellowship deferment by another FFELP loan holder or the Department (for a Direct loan) for the same time period. The borrower must request the deferment either verbally or in writing but does not have to provide a completed graduate fellowship deferment form.

In granting the deferment in this manner, the lender may rely in good faith on the information obtained from another FFELP loan holder, the Department, or an authoritative electronic database maintained or authorized by the Department, unless the lender has information indicating that the borrower does not qualify for the graduate fellowship deferment. The lender must resolve any discrepant information before granting a graduate fellowship deferment in this manner.

If the lender grants the graduate fellowship deferment using this simplified process, it must notify the borrower that the deferment has been granted and that the borrower has the option to pay the interest that accrues on an unsubsidized

FFELP loan or to cancel the deferment and continue to make payments on the loan.
[§682.210(s)(1)(iii) - (v)]

## 11.6 In-School Deferment, Summer Bridge Extension, and Post-Enrollment Deferment

An in-school deferment is available to a borrower for the borrower's and, in the case of a parent PLUS loan, the student's at-least-half-time study at an eligible school. For a parent PLUS loan first disbursed on or after July 1, 2008, the parent borrower may request deferment of any PLUS loan borrowed on behalf of a student who meets the conditions required for an in-school deferment. In all other cases, 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 or documentation for the deferment (either verbally or in writing).
- 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.

### 11.6.A Eligibility Criteria—In-School

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 DCL 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 meets the conditions required for an in-school deferment, the borrower may defer all of his or her PLUS, Stafford, and Consolidation loans, as applicable, based on those conditions.

For a parent PLUS loan first disbursed on or after July 1, 2008, a parent borrower also may request deferment of any PLUS loan borrowed on behalf of a student who meets the conditions required for an in-school deferment. An in-school deferment on a parent PLUS loan first disbursed on or after July 1, 2008, and based on the enrollment of the dependent student is loan-specific as opposed to borrower-specific.
[HEA §428B(d)(1)(A)]

For a parent PLUS loan first disbursed prior to July 1, 2008, if the dependent student for whom a parent borrower obtained the PLUS loan meets the conditions required for an in-school deferment, the parent borrower may defer his or her PLUS loan based on the status of that student—provided the parent borrower's loan was made on or after

July 1, 1987, and before July 1, 1993, or the parent borrower had an outstanding balance on a FFELP loan made before July 1, 1993, when the parent obtained a loan disbursed on or after July 1, 1993.

A PLUS loan borrower who is classified under the category *"New borrower" July 1, 1993* defined in Subsection 11.1.A must be enrolled on at least a half-time basis to be eligible for an in-school deferment. A deferment for such a "new borrower" who obtains a PLUS loan may not be granted on the basis of the dependent student's enrollment status if the PLUS loan was first disbursed on or after July 1, 1993, and prior to July 1, 2008.

## 11.6.B
## Deferment Documentation—In-School

If a borrower requests an in-school deferment form, the lender should forward to the borrower the following common deferment form:

**SCH**
In-School Deferment Request

If a PLUS borrower requests an in-school deferment based on the enrollment of a dependent student for whom the parent borrowed a PLUS loan, the lender should forward to the borrower the following common deferment form:

**PLUS**
Parent PLUS Borrower 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 new loan certification record that documents the borrower's eligibility for a deferment. By signing the Master Promissory Note (MPN), the borrower authorizes a lender to defer all of his or her FFELP loans upon the lender's receipt of information indicating that the borrower or, as applicable, the student, is enrolled at least half time.

- Student status information received by the lender indicating that the borrower is enrolled at least half time.

- Student status information contained on the National Student Loan Data System (NSLDS) if the school has requested that the lender use that information. [HEA §428(b)(1)(Y)]

- Other information certified by the school indicating that the borrower is enrolled at least half time.

The deferment must be granted through the eligible student's anticipated graduation date for each eligible period of enrollment. If an in-school deferment is granted by the lender based upon a new loan certification record, the receipt of student status information, or other information certified by the school, and the borrower has not requested the deferment, the lender must notify the borrower of the in-school deferment. The notification must advise the borrower of the option to pay the interest that accrues on an unsubsidized loan, the option to cancel the deferment and continue paying on the loan, and the consequences of these options.
[HEA §428(b)(1)(Y); §682.210(c)(2) and (3)]

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.

## 11.6.C
## Length of Deferment—In-School

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 request 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 that the student's cumulative leaves of absence did not exceed 180 days in any 12-month period.
[§668.22(d)(1)]

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 10.2). 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 (COA) 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, and payments to comply with the requirements for the return of Title IV funds (see Section 9.5).

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

## 11.6.D Summer Bridge Extension

In some cases, a borrower may be eligible to extend the period of in-school deferment based on anticipated reenrollment for the fall term. 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 through the summer months.

A PLUS loan borrower is eligible to extend an in-school deferment through the summer if the PLUS borrower intends to enroll on at least a half-time basis in the fall. If a PLUS loan borrower is eligible for deferment based upon a dependent student's status, the summer bridge extension may also be applied if any dependent student for whom a PLUS loan was obtained intends to enroll in the fall (see Subsection 11.1.A).
[§682.210(b)(4) and (6); §682.210(s)(2)]

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 later than 60 days—plus the 30-day extension in the case of a Stafford, PLUS, or SLS loan, *if applicable*, as outlined in Subsections 10.5.A and 10.5.C—after the end of the summer bridge extension.

A lender may accept the borrower's verbal statement of the student's 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 the student's 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.

## 11.6.E Post-Enrollment Deferment

For a parent PLUS loan first disbursed on or after July 1, 2008, the borrower may request deferment of his or her PLUS loan during any 6-month period beginning on the day after the parent PLUS borrower ceases to be enrolled at least half time at an eligible school. For a Grad PLUS loan first disbursed on or after July 1, 2008, the lender must, unless otherwise notified by the borrower, defer the borrower's Grad PLUS loan during any 6-month period beginning on the day after the Grad PLUS 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.

For a parent PLUS loan first disbursed on or after July 1, 2008, the borrower may request deferment of his or her PLUS loan during any 6-month period beginning on the day after the student on whose behalf the PLUS loan(s) was borrowed ceases to be enrolled at least half time, as determined by the out-of-school date provided by the school. If both the parent PLUS borrower and the student for whom the PLUS loan was borrowed meet the conditions for an in-school deferment, the parent PLUS borrower may request a deferment during any 6-month period beginning on the later of the following:

- The day after the student on whose behalf the loan was borrowed 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 day after the parent borrower ceases to be enrolled at least half time at an eligible school.
[HEA §428B(d)(1)(B); §682.210(v)]

## 11.7 Internship/Residency Deferment

An internship/residency deferment is available to a borrower for either of the following:

- 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.
[§682.210(n)]

### 11.7.A Eligibility Criteria—Internship/Residency

This deferment is available only if the borrower has an outstanding balance on a FFELP loan that was made before July 1, 1993, or the borrower had an outstanding balance on a FFELP loan made before July 1, 1993, when he or she obtained a loan disbursed on or after July 1, 1993. The deferment is also available to a PLUS borrower if that borrower has 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 a hospital, health care facility, or institution of higher education 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.

### 11.7.B Deferment Documentation—Internship/Residency

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

### 11.7.C Length of Deferment—Internship/Residency

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. 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 11.24.B). 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).

## 11.8 Military Service Deferment

A military service deferment is available to a borrower while the borrower is serving on active duty during a war or other military operation, or a national emergency, or while the borrower is performing qualifying National Guard duty during a war or other military operation, or a national emergency.
[§682.210(t)(1); HEA §428(b)(1)(M)(iii); DCL GEN-06-02; DCL FP-08-01]

Payments made by or on behalf of a borrower during a period for which the borrower qualified for a military service deferment are not refunded.
[§682.210(t)(5)]

## 11.8.A Eligibility Criteria—Military Service

This deferment is available to Stafford, PLUS and Consolidation loan borrowers during periods in which a borrower is serving in one of the following capacities:

- On active duty during a war or other military operation, or a national emergency.

- On qualifying National Guard duty during a war or other military operation, or a national emergency.
[HEA §428(b)(1)(M); §682.210(t)(1) - (4); DCL GEN-06-02; DCL GEN-08-01]

#### Definitions Applicable to Military Service Deferment

In the context of the military service deferment, the following definitions apply:

- *Active duty* means serving in full-time duty in the active military service of the U.S., not including training or attendance at a service school.

- *Military operation* means a contingency operation in which a member of the Armed Forces is, or may become, involved in military actions, operations, or hostilities against an enemy of the U.S. or against an opposing military force; or results in the call or order to, or retention on, active duty of members of the uniformed services under 10 U.S.C. 688, 12301(a), 12302, 12304, 12305, or 12406, 10 U.S.C. Chapter 15, or any other provision of law during a war or during a national emergency declared by the president or Congress.

- *National emergency* means a national emergency by reason of certain terrorist attacks declared by the president on September 14, 2001, or subsequent national emergencies declared by the president by reason of terrorist attacks.

- *Qualifying National Guard duty* means training or other duty, other than inactive, performed by a member of the U.S. Army National Guard or the Air National Guard on full-time National Guard duty as called to service authorized by the president or the Secretary of Defense. The training or other duty must be performed for more than 30 consecutive days in connection with a war or other military operation, or a national emergency as declared by the president and supported by federal funds.

- *Serving in active duty* means service by an individual who is a Reserve of an Armed Force ordered to active duty under section 10 U.S.C. 12301(a), 12301(g), 12302, 12304, or 12306, or any retired member of an Armed Force ordered to active duty under 10 U.S.C. 688, for service in connection with a war or other military operation or national emergency, regardless of the location at which the active duty service is performed. This also includes any other member of an Armed Force on active duty in connection with such emergency or subsequent actions of conditions who has been assigned to a duty station at a location other than where the member is normally assigned.

Not all active duty military personnel are eligible for the military deferment. A borrower who does not qualify for this deferment may be eligible for the Armed Forces deferment (see Subsection 11.3.A for the Armed Forces deferment eligibility criteria).

A borrower is not eligible for a refund of any loan payments made prior to the time the deferment is granted.
[HEA §428(b)(1)(M); DCL GEN-06-02]

## 11.8.B Deferment Documentation—Military Service

If a borrower requests a military service deferment or a post-active duty student deferment, the lender should make available to the borrower the following common deferment form:

**MIL**
Military Service Deferment Request
Post-Active Duty Student Deferment Request

A borrower or a borrower's representative must request the deferment and provide the lender with documentation of the borrower's active duty status. The documentation must include a copy of the borrower's military orders, or a written statement from the borrower's commanding or personnel officer that the borrower is serving on active duty during a war or other military operation, or a national emergency, or that the borrower is performing qualifying National Guard duty during a war or other military operation, or a national emergency, as those terms are defined in Subsection 11.8.A. The lender may also grant a borrower a deferment using the simplified deferment processing outlined in Subsection 11.8.D.
[HEA §428(b)(1)(M); §682.210(t)(7); DCL GEN-06-02; DCL FP-08-01]

If a borrower's military deferment eligibility expired due to the previous 3-year limitation and the borrower was still serving on qualifying active duty service on or after October 1, 2007, a lender may grant expanded deferment benefits without receiving a new deferment request from the borrower or borrower's representative. If a deferment is granted in this manner, the lender must notify the borrower of the additional benefits and provide the borrower the opportunity to decline the deferment.
[DCL GEN-08-01]

If a lender grants a military deferment based on a request from the borrower's representative, the lender must notify the borrower that the deferment has been granted and that the borrower has the option to cancel the deferment and continue to make payments on the loan. The lender may also notify the borrower's representative of the outcome of the deferment request.
[§682.210(t)(7)]

## 11.8.C
## Length of Deferment—Military Service

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. The deferment ends on the date on which the borrower's qualifying service is certified to end or actually ends.
[HEA §428(b)(1)(M)(ii) and (iii); §682.210(t); DCL GEN-06-02]

Without supporting documentation, a lender may grant a military service deferment to an otherwise eligible borrower for a period not to exceed the initial 12 months from the date the qualifying eligible service began based on a request from the borrower or the borrower's representative.
[§682.210(t)(9)]

For a borrower whose qualifying service includes October 1, 2007, or begins on or after that date, the deferment is extended for an additional 180 days after the date the borrower is demobilized from that qualifying service. The additional 180-day deferment is available to a borrower each time a borrower is demobilized from qualifying active duty service. The additional 180-day deferment period may not be granted unless the lender receives documentation of the date the borrower was demobilized from qualifying service.
[§682.210(t)(2); DCL FP-08-01]

## 11.8.D
## Simplified Deferment Processing

A lender may grant an eligible borrower a military deferment based on information that the borrower has been granted a military deferment by another FFELP loan holder or the Department (for a Direct loan) for the same time period. The borrower, or the borrower's representative, must request the deferment either verbally or in writing but does not have to provide a completed military deferment form.

In granting the deferment in this manner, the lender may rely in good faith on the information obtained from another FFELP loan holder, the Department, or an authoritative electronic database maintained or authorized by the Department, unless the lender has information indicating that the borrower does not qualify for the military deferment. The lender must resolve any discrepant information before granting a military deferment in this manner.

If the lender grants the military deferment using this simplified process, it must notify the borrower that the deferment has been granted and that the borrower has the option to pay the interest that accrues on an unsubsidized FFELP loan or to cancel the deferment and continue to make payments on the loan.
[§682.210(s)(1)(iii) - (v)]

## 11.9 National Oceanic and Atmospheric Administration Corps Deferment

A National Oceanic and Atmospheric Administration Corps deferment is available to a borrower who is engaged in active duty service in the National Oceanic and Atmospheric Administration Corps (NOAA).

### 11.9.A Eligibility Criteria—NOAA

This deferment is available only if the borrower has an outstanding balance on a FFELP loan that was made before July 1, 1993, or the borrower had an outstanding balance on a FFELP loan made before July 1, 1993, when he or she obtained a loan disbursed on or after 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.

### 11.9.B Deferment Documentation—NOAA

If a borrower requests a NOAA deferment, the lender should forward to the borrower the following common deferment form:

**PUB**
Public Service Deferment Request

### 11.9.C Length of Deferment—NOAA

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. 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)]

## 11.10 Parental Leave Deferment

A parental leave deferment is available to a borrower who is pregnant or caring for his or her newborn or newly adopted child.

### 11.10.A Eligibility Criteria—Parental Leave

This deferment is available only if the borrower has an outstanding balance on a FFELP loan that was made before July 1, 1993, or the borrower had an outstanding balance on a FFELP loan made before July 1, 1993, when he or she obtained a loan disbursed on or after 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.

## 11.10.B
## Deferment Documentation—Parental Leave

If a borrower requests a parental leave deferment, the lender should forward to the borrower the following common deferment form:

**PLWM**
Parental Leave/Working Mother Deferment Request

## 11.10.C
## Length of Deferment—Parental Leave

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. 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)]

## 11.11
## Peace Corps Deferment

A Peace Corps deferment is available to a borrower who is engaged in volunteer service under the Peace Corps Act.

## 11.11.A
## Eligibility Criteria—Peace Corps

This deferment is available only if the borrower has an outstanding balance on a FFELP loan that was made before July 1, 1993, or the borrower had an outstanding balance on a FFELP loan made before July 1, 1993, when he or she obtained a loan disbursed on or after July 1, 1993. The deferment is also available to a PLUS borrower if that borrower has 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.

## 11.11.B
## Deferment Documentation—Peace Corps

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

## 11.11.C
## Length of Deferment—Peace Corps

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. 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)]

## 11.12
## Post-Active Duty Student Deferment

A post-active duty student deferment is available to a borrower who is a member of the National Guard or Armed Forces Reserve (including a member in a retired status), and is called or ordered to active duty service (eligible national or state duty) while enrolled at least half time in an eligible school at the time of, or within 6 months prior to, his or her activation.
[§682.210(u)(1); DCL FP-08-01]

Prior to receiving a post-active duty student deferment, a borrower may be eligible to receive a military service deferment (see Section 11.8) or mandatory forbearance (see Subsection 11.24.C), depending upon the type of military service being performed.

## 11.12.A Eligibility Criteria—Post-Active Duty Student

This deferment is available to a Stafford, PLUS, or Consolidation loan borrower who is called or ordered to active duty on or after October 1, 2007, or for a period of service that includes that date, and who satisfies both of the following criteria:

- Is a member of the National Guard or Armed Forces Reserve, including a member who was in a retired status when activated.

- Was enrolled on at least a half-time basis in a program of study at an eligible school at the time of, or within 6 months prior to, being called or ordered to active duty.
  [§682.210(u)(1); DCL FP-08-01]

### Definitions Applicable to Post-Active Duty Student Deferment

In the context of the post-active duty student deferment, the following definitions apply:

- *Active duty* means serving in full-time duty in the active military service of the United States for at least 30 consecutive days, including active state duty for members of the National Guard, for either of the following:

  – Activities authorized by the governor, and approved by the president or Secretary of Defense, that are supported by federal funds.

  – Activities authorized by the governor based on state statute or policy that are supported by state funds.

  *Active duty* does not include:

  – Training or attendance at a service school.

  – Employment in a full-time, permanent position in the National Guard unless that position is reassigned as part of a Title 32 call to state active duty service.
  [§682.210(u)(2); DCL FP-08-01]

## 11.12.B Deferment Documentation—Post-Active Duty Student

If a borrower requests a military service deferment or a post-active duty student deferment, the lender should make available to the borrower the following common deferment form:

**MIL**
Military Service Deferment Request
Post-Active Duty Student Deferment Request

A borrower must request the deferment and provide the lender with documentation of his or her duty status. The documentation must show that the borrower was a member of the National Guard or Reserves (including a member in a retired status), and establish an end-of-military service date and the borrower's enrollment status at an eligible school at the time of, or within six months prior to, military activation.
[§682.210(u)(5); DCL FP-08-01]

If the borrower has already received a military service deferment (see Section 11.8), a lender may grant a post-active duty student deferment without an additional request from the borrower if the lender has all the required eligibility documentation. If a deferment is granted in this manner, the lender must notify the borrower of the deferment and provide the borrower the opportunity to decline the deferment.
[§682.210(u)(5); DCL FP-08-01]

The lender may also grant a borrower a deferment using the simplified deferment processing outlined in Subsection 11.12.D.

## 11.12.C Length of Deferment—Post-Active Duty Student

A borrower who meets the eligibility criteria outlined in Subsection 11.12.A may receive a deferment for up to 13 months following the completion of a period of active duty military service if that service began on or after October 1, 2007, or includes that date. The deferment ends on the earlier of the date of the borrower's re-enrollment in school on at least a half-time basis, or the date the 13-month period ends.

A borrower who is eligible for both the post-active duty student deferment and the military service deferment outlined in Section 11.8 that provides for a 180-day

extended deferment period, can only receive these benefits concurrently and not consecutively (i.e., the maximum benefit is limited to 13 months).
[§682.210(u)(4); DCL FP-08-01]

## 11.12.D
## Simplified Deferment Processing

A lender may grant an eligible borrower a post-active duty student deferment based on information that the borrower has been granted a post-active duty student deferment by another FFELP loan holder or the Department (for a Direct loan) for the same time period. The borrower, or the borrower's representative, must request the deferment either verbally or in writing, but does not have to provide a completed post-active duty student deferment request form.

In granting the deferment in this manner, the lender may rely in good faith on the information obtained from the other FFELP loan holder, the Department, or an authoritative electronic database maintained or authorized by the Department, unless the lender has information indicating that the borrower does not qualify for the post-active duty student deferment. The lender must resolve any discrepant information before granting a post-active duty student deferment in this manner.

If the lender grants the post-active duty student deferment using this simplified process, the lender must notify the borrower that the deferment has been granted and that the borrower has the option to pay the interest that accrues on an unsubsidized FFELP loan or to cancel the deferment and continue to make payments on the loan.
[§682.210(s)(iii) - (v); §682.210(t)(7)]

## 11.13
## Public Health Service Deferment

A public health service deferment is available to a borrower who is serving as a full-time officer in the Commissioned Corps of Public Health of the United States Public Health Service (USPHS).

## 11.13.A
## Eligibility Criteria—Public Health Service

This deferment is available only if the borrower has an outstanding balance on a FFELP loan that was made before July 1, 1993, or the borrower had an outstanding balance on a FFELP loan made before July 1, 1993, when he or she obtained a loan disbursed on or after July 1, 1993. The deferment is also available to a PLUS borrower if that borrower has 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.

## 11.13.B
## Deferment Documentation—Public Health Service

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

## 11.13.C
## Length of Deferment—Public Health Service

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. 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)]

## 11.14
## Rehabilitation Training Program Deferment

A rehabilitation training program deferment covers a qualified individual's participation in a rehabilitation training program. If the dependent student for whom a parent borrower obtained one or more PLUS loans meets the conditions required for a rehabilitation training program deferment, the parent borrower may defer all of his or her

PLUS loans based on the status of that one student—provided that the parent borrower's loan was made before July 1, 1993, or the parent had an outstanding balance on a FFELP loan made before July 1, 1993, when the parent obtained a loan disbursed on or after July 1, 1993.

## 11.14.A Eligibility Criteria—Rehabilitation Training Program

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 parent 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.

## 11.14.B Deferment Documentation—Rehabilitation Training Program

If a borrower requests a rehabilitation training program deferment, the lender should forward to the borrower the following common deferment form:

**EDU**
Education Related Deferment Request

If a PLUS borrower requests a rehabilitation training deferment based on the participation in a qualified training program by the dependent student for whom the parent borrowed a PLUS loan, the lender should forward to the borrower the following common deferment form:

**PLUS**
Parent PLUS Borrower Deferment Request

## 11.14.C Length of Deferment—Rehabilitation Training Program

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. The deferment ends when the borrower completes the program or withdraws, whichever is earlier. [§682.210(e) and (s)(4)]

## 11.14.D Simplified Deferment Processing

A lender may grant an eligible borrower a rehabilitation training deferment based on information that the borrower has been granted a rehabilitation training deferment by another FFELP loan holder or the Department (for a Direct loan) for the same time period. The borrower must request the deferment either verbally or in writing but does not have to provide a completed rehabilitation training deferment form.

In granting the deferment in this manner, the lender may rely in good faith on the information obtained from another FFELP loan holder, the Department, or an authoritative electronic database maintained or authorized by the Department, unless the lender has information indicating that the borrower does not qualify for the rehabilitation training deferment. The lender must resolve any discrepant information before granting a rehabilitation training deferment in this manner.

If the lender grants the rehabilitation training deferment using this simplified process, it must notify the borrower that the deferment has been granted and that the borrower has the option to pay the interest that accrues on an unsubsidized FFELP loan or to cancel the deferment and continue to make payments on the loan.
[§682.210(s)(1)(iii) - (v)]

## 11.15 Tax-Exempt Organization Volunteer Deferment

A tax-exempt organization volunteer deferment is available to a borrower who is engaged in 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.

### 11.15.A Eligibility Criteria—Tax-Exempt Organization Volunteer

This deferment is available only if the borrower has an outstanding balance on a FFELP loan that was made before July 1, 1993, or the borrower had an outstanding balance on a FFELP loan made before July 1, 1993, when he or she obtained a loan disbursed on or after July 1, 1993. The deferment is also available to a PLUS borrower if that borrower has 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.

### 11.15.B Deferment Documentation—Tax-Exempt Organization Volunteer

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

### 11.15.C Length of Deferment—Tax-Exempt Organization Volunteer

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. 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)]

## 11.16 Teacher Shortage Area or Targeted Teacher Deferment

A teacher shortage area deferment (also called a targeted teacher deferment) is available to a borrower who is teaching full time 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.

## 11.16.A
## Eligibility Criteria—Teacher Shortage Area

This deferment is available only if the borrower has an outstanding balance on a FFELP loan that was made on or after July 1, 1987, and before July 1, 1993, or who had an outstanding balance on a loan obtained on or after July 1, 1987, and before July 1, 1993, when he or she obtained a loan on or after 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).

## 11.16.B
## Deferment Documentation—Teacher Shortage Area

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

## 11.16.C
## Length of Deferment—Teacher Shortage Area

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. 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)]

## 11.17
## 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.

## 11.17.A
## Eligibility Criteria—Temporary Total Disability

This deferment is available only if the borrower has an outstanding balance on a FFELP loan that was made before July 1, 1993, or the borrower had an outstanding balance on a FFELP loan made before July 1, 1993, when he or she obtained a loan disbursed on or after 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 during a period of at least 60 consecutive 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 consecutive 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 dependent or spouse requires continuous nursing or similar services during a period of at least 90 consecutive 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.

## 11.17.B
## Deferment Documentation—Temporary Total Disability

If a borrower requests a temporary total disability deferment, the lender should forward to the borrower the following common deferment form:

**TDIS**
Temporary Total Disability Deferment Request

## 11.17.C
## Length of Deferment—Temporary Total Disability

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. 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)]

## 11.18
## 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 District of Columbia, the Commonwealth of Puerto Rico, American Samoa, Guam, the Virgin Islands, the Commonwealth of the Northern Mariana Islands, and the Freely Associated States (the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau). 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.

## 11.18.A
## Eligibility Criteria—Unemployment

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. A borrower who has obtained an unemployment deferment is expected to promptly notify the lender when full-time employment is obtained.

To obtain an unemployment deferment or an extension of an existing unemployment deferment, a borrower must request the deferment or extension, and document his or her eligibility in one of the following ways:

- Provide the lender with evidence of his or her eligibility for unemployment benefits if he or she is eligible for such benefits. In this case, a borrower need not provide the lender with a common deferment form or additional information or documentation.

- Provide the lender with written certification—or an equivalent approved by the Department—that the borrower has:

  - Registered with a public or private employment agency if one is available within a 50-mile radius of the borrower's current address.

  - Made at least six diligent attempts in the preceding 6-month period to obtain full-time employment. If the unemployment deferment request is for an initial period of deferment, the borrower is not required to certify attempts to obtain employment.

## 11.18.B
## Deferment Documentation—Unemployment

If a borrower requests an unemployment deferment and the borrower is eligible for unemployment benefits, the lender should request that the borrower submit evidence of his or her eligibility for unemployment benefits. If a borrower requests an unemployment deferment and is not eligible for unemployment benefits, the lender should forward to the borrower the following common deferment form:

**UNEM**
Unemployment Deferment Request

## 11.18.C
## Length of Deferment—Unemployment

The initial period of unemployment deferment that is based on the borrower's self-certification begins on the latest of the following:

- The date that the condition entitling the borrower to the deferment first existed, as determined by the lender.

- The date that the borrower requests the deferment to begin.

- Six months before the date the lender receives the request and required documentation.

A lender may grant an initial period of unemployment deferment based on the borrower's self-certification for no more than 6 months after the date the lender receives the borrower's unemployment deferment request. A lender may grant an unemployment deferment extension for no more than 6 months after the date the lender receives the borrower's certification.

An initial period of unemployment deferment based on evidence of the borrower's eligibility for unemployment benefits and any extension of an existing unemployment deferment is not subject to the 6-month backdating restriction. A lender may grant an unemployment deferment extension for no more than 6 months following the date the lender receives evidence of eligibility for unemployment benefits.

An unemployment deferment period ends as soon as one of the following events occurs:

- The condition that entitled the borrower to the unemployment deferment ends.
- 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 E of DCL 96-L-186/96-G-287]

If the borrower is eligible to receive a 6-month post-deferment grace period on his or her loan (see Subsection 11.1.H), a lender may grant only one such grace period following one unemployment deferment period—regardless of how many periods of unemployment deferment the borrower is granted. This grace period should be provided only following the initial unemployment deferment period.
[HEA §428(b)(1)(M)(ii); §682.210(a)(5) and (h) and (s)(5)]

## 11.18.D
## Simplified Deferment Processing

A lender may grant an eligible borrower an unemployment deferment based on information that the borrower has been granted an unemployment deferment by another FFELP loan holder or the Department (for a Direct loan) for the same time period. The borrower must request the deferment either verbally or in writing but does not have to provide a completed unemployment deferment form.

In granting the deferment in this manner, the lender may rely in good faith on the information obtained from another FFELP loan holder, the Department, or an authoritative electronic database maintained or authorized by the Department, unless the lender has information indicating that the borrower does not qualify for the unemployment deferment. The lender must resolve any discrepant information before granting an unemployment deferment in this manner.

If the lender grants the unemployment deferment using this simplified process, it must notify the borrower that the deferment has been granted and that the borrower has the option to pay the interest that accrues on an unsubsidized FFELP loan or to cancel the deferment and continue to make payments on the loan.
[§682.210(s)(1)(iii) - (v)]

# 11.19
# Working Mother Deferment

A working mother deferment is available to a borrower who is the mother of a preschool-age child when the mother is entering or reentering the work force. A preschool-age child is defined as one who is not yet enrolled in first grade or a higher grade in elementary school.

## 11.19.A
## Eligibility Criteria—Working Mother

This deferment is available only if the borrower has an outstanding balance on a FFELP loan that was made before July 1, 1993, or the borrower had an outstanding balance on a FFELP loan made before July 1, 1993, when he or she obtained a loan disbursed on or after 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).

## 11.19.B
## Deferment Documentation—Working Mother

If a borrower requests a working mother deferment, the lender should forward to the borrower the following common deferment form:

**PLWM**
Parental Leave/Working Mother Deferment Request

## 11.19.C
## Length of Deferment—Working Mother

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as determined by the lender. 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)]

## 11.20
## Forbearance

Forbearance is a tool lenders can use to assist borrowers in meeting their loan repayment obligations. By granting forbearance, a lender 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.

The terms of a forbearance agreement between a lender and borrower or endorser may require the borrower or endorser to make reduced payments during the forbearance. For more information on reduced-payment forbearance, see Subsection 11.22.A.

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 based on the same or differing conditions—except in cases when one comaker has applied for a total and permanent disability loan discharge (see Subsection 11.20.F, Forbearance of a Loan for a Comaker during the TPD Conditional Period).
[§682.211(a)(3)]

A consolidating lender that establishes more than a single loan servicing record for the subsidized, unsubsidized, and HEAL portions of the Consolidation loan, must grant a forbearance on the entire loan. The forbearance must be applied for the same period of time to each portion of the loan.

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 nationwide consumer reporting agencies any adverse information regarding the repayment status of a loan solely as a result of granting forbearance to the borrower.
[HEA §428(c)(3)(A)(iii)]

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 Subsections 11.20.G and 11.20.H.
[HEA §428(c)(3)]

## 11.20.A
## Forbearance Types

There are four types of forbearance available to borrowers and, in some cases, endorsers:

- Administrative forbearance (see Section 11.21).
- Discretionary forbearance (see Section 11.22).
- Mandatory administrative forbearance (see Section 11.23).
- Mandatory forbearance (see Section 11.24).

Figure 11-2, the Forbearance Eligibility Chart, may help schools and lenders identify general information about discretionary, administrative, mandatory, and mandatory administrative forbearances, including situations in which these forbearance types may be used by a borrower and an endorser, if applicable. The chart also provides information

about the length of the forbearance and general information about required documentation. For detailed information about each forbearance, see the applicable section.

## 11.20.B
## Documentation Required for Authorized Forbearance

In cases where a forbearance agreement is required, a lender and a borrower may agree to the terms of the forbearance verbally or in writing. A lender that grants a forbearance based on a written agreement with the borrower may use any form or format that is acceptable to the guarantor, and the lender must retain a copy of the agreement. A lender that grants a forbearance based on a verbal agreement with the borrower must send a notice confirming the terms of the forbearance agreement to the borrower within 30 days of the date that agreement was made and record the forbearance terms in the borrower's file. In order to grant a forbearance after the date of default based on either a verbal or a written agreement with the borrower, the lender must also obtain a new signed agreement to repay the debt (see Subsection 11.20.H). For each forbearance period, regardless of whether an agreement is required, the lender must document in the borrower's file or the loan's servicing history the forbearance beginning and ending dates and the reason for granting forbearance.
[HEA §428(c)(3)(A) and (c)(10); §682.211(b)(1); §682.211(d); §682.414(a)(4)(ii)(G)]

## 11.20.C
## Forbearance Length

With the exception of administrative and mandatory forbearances that are not subject to a maximum time frame or are subject to other regulatory time frames (see Sections 11.21, 11.23, and 11.24), 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. 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 resuming regularly scheduled loan payments after the first forbearance expires. If additional forbearance is warranted, the lender must reach a new agreement with the borrower either verbally or in writing.
[§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 Section 14.5 for more information about curing a loan to reinstate the guarantee.

## 11.20.D
## 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 Section 10.10.
[§682.202(b)]

## 11.20.E
## Reporting Forbearances

Under the Department's National Student Loan Data System (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.

## 11.20.F
## Forbearance of a Loan for a Comaker during the TPD Conditional Period

When one comaker of a joint Consolidation loan or a comade PLUS loan applies for a total and permanent disability (TPD) loan discharge, the forbearance eligibility requirements apply only to the non-disabled comaker during the conditional discharge period. The lender must ensure that the delinquency on a comade loan, if any, at the time the conditional discharge period begins does not worsen.

A lender may grant discretionary forbearance on the repayment of the entire loan if the ability of the non-disabled comaker to make payments is impaired during the conditional discharge period for the disabled comaker.

The lender must explore with the non-disabled comaker any other available options such as alternative repayment agreements, deferments, discretionary forbearance, or reduced-payment forbearance. As a last resort, the lender may apply an administrative forbearance to ensure that the loan does not become delinquent or that an existing delinquency does not increase during the conditional discharge period. The administrative forbearance may be applied only for the time period that the nondisabled comaker is solely responsible for the loan's repayment and may not begin earlier than the date the loan holder receives either the disabled comaker's loan discharge application, or the notification from the guarantor that a loan discharge application was submitted to the guarantor, whichever is earlier. The administrative forbearance may not end later than the date the lender receives notification of the final discharge determination. (See Subsection 10.6.C for repayment options; Sections 11.2 to 11.19 for deferment information; Section 11.22 for information on discretionary forbearance; and Subsection 11.22.A for information on reduced-payment forbearance.)

## 11.20.G
## Forbearance of Delinquent Loans

A lender must not administratively forbear a delinquent borrower in cases where the borrower is delinquent before a mandatory forbearance or certain mandatory administrative forbearances. A lender should resolve any delinquencies that exist before these types of forbearance by working with the borrower to grant a discretionary forbearance. This requirement to resolve existing delinquency using a discretionary forbearance does not apply to mandatory administrative forbearances granted for military mobilization, local or national emergencies, or a designated disaster area (see Subsection 11.23.B for more information).

## 11.20.H
## Forbearance of Defaulted Loans

A lender may grant a discretionary forbearance to a borrower or endorser to resolve a delinquency and permit the resumption of payments after the date of default only if the forbearance is granted prior to the lender's receipt of the claim payment. In order to grant a forbearance after the date of default, the lender must obtain a verbal or written agreement regarding the terms of the discretionary forbearance and a new signed agreement to repay the debt. At the lender's discretion, the signed agreement to repay the debt may be included in the context of a written forbearance agreement or may be separate. If the lender grants a discretionary forbearance based on a verbal agreement, the lender must record the forbearance terms in the borrower's file and send, within 30 days of that agreement, a notice to the borrower or endorser confirming the terms of the forbearance agreement. (See Section 11.22 for more information about granting a discretionary forbearance.) The lender is not required to obtain a new signed agreement to repay the debt if an administrative forbearance is granted in conjunction with an authorized deferment that begins prior to the 270th day of delinquency.
[§682.211(b) and (d)]

## 11.20.I
## Borrower Contact during Forbearance

When a lender grants a forbearance, the lender must provide to the borrower or the endorser, as applicable, information to assist the borrower or endorser in understanding the effect of interest capitalization on the loan's principal balance, and the total amount of interest to be paid over the life of the loan.

If the lender and borrower or endorser agree verbally to a discretionary forbearance, the lender must record the forbearance terms in the borrower's file and send, within 30 days of that agreement, a notice to the borrower or endorser confirming the terms of the forbearance agreement.

During the forbearance period, the lender must contact the borrower or endorser not less than once every 180 days. The lender must inform the borrower or endorser of all the following:

- The obligation to repay the loan.
- The outstanding balance of principal and interest on the loan.
- That interest will accrue on the loan for the entire forbearance period.
- The amount of interest accrued since the last forbearance notice was provided to the borrower or endorser.
- The amount of interest that will be capitalized on the loan, projected as of the date of the notice, and the date that the capitalization will occur.
- The borrower's or endorser's option to pay the interest before it is capitalized.
- That the borrower or endorser may opt to discontinue the forbearance at any time.

This notification requirement does not apply to the postponement of interest payments during a deferment period.
[HEA §428(c)(3); §682.211(e); DCL GEN-08-12/FP-08-10]

## 11.20.J
## Establishing Repayment after Forbearance

A borrower's first payment due date after an authorized forbearance generally must be no later than 60 days after the date that the forbearance expires. For a Stafford, PLUS, or SLS loan, federal regulations permit the lender to extend the first due date an additional 30 days beyond the standard 60-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 disclosure of repayment terms, see Section 10.7.
[§682.205(c); §682.209(a)(3)(ii)(B)]

## Forbearance Eligibility Chart — Figure 11-2

| TYPE | LENGTH |
|---|---|
| **Discretionary** | |
| Financial difficulties due to personal problems when the borrower is unable to make regularly scheduled payments[1] | The period established in the terms of the forbearance agreement (not to exceed 12-month increments); no maximum |
| Reduced-Payment Forbearance[1] | |
| **Mandatory** | |
| Medical or Dental Internship/Residency[2, 3] | 12-month increments (or a lesser period equal to actual period during which the borrower is eligible); no maximum |
| Department of Defense Student Loan Repayment Programs[3] | |
| National Service[2, 3] | |
| Active Military State Duty[2, 3, 9] | |
| Debt Exceeds Monthly Income[4, 5] | 12-month increments; 3 years maximum |
| Teacher Loan Forgiveness[2, 3] | Period while borrower maintains forgiveness eligibility. 12-month increments |
| **Mandatory Administrative** | |
| Local or National Emergency[7] | Period specified by the Department or guarantor plus 30 days following the period |
| Military Mobilization[8] | |
| Designated Disaster Area[7] | |
| Repayment Accommodation | 3-year maximum for variable interest rate; 5-year maximum for income-sensitive repayment |
| Death | Date lender receives reliable notification of death to date lender receives death certificate or other acceptable documentation, not to exceed 60 days |
| Teacher Loan Forgiveness[2, 6] | The period while the lender is awaiting a completed loan forgiveness application, not to exceed 60 days |
| | Date lender receives a completed loan forgiveness application to date lender receives either a denial or the loan forgiveness amount from the guarantor |
| **Administrative** | |
| Borrower Ineligible for Deferment[6] | Beginning date to ending date of the ineligible deferment |
| Delinquency before a Deferment or Certain Forbearances[6] | First date of overdue payment to the day before the beginning date of deferment or other forbearance type |
| Forgiveness under Income-Based Repayment[6] | 60 days for lender to collect and process documentation to determine a borrower's eligibility |
| Late Notification of Out-of-School Dates[6] | Date borrower should have entered repayment to date first or next payment was established |
| Bankruptcy Filing[6] | The earlier of the first date of overdue payment or receipt of reliable information that the borrower has filed bankruptcy to date of discharge determination or repurchase |
| Total and Permanent Disability[6] | Date lender receives physician's written request for additional time to date lender receives a complete, certified loan discharge application or other form(s) approved by the Department, if the borrower submits the certification to the lender within 90 days of the date the physician certified the application, not to exceed 60 days |
| | For a non-disabled comaker, the earlier of the date that the lender receives the loan discharge application or the date the lender receives notice from the guarantor that one comaker is totally and permanently disabled, to the date that the lender receives notice of the final discharge determination. |

| TYPE | LENGTH |
|---|---|
| Spouses and Parents of Victims of September 11, 2001[6] | 60 days from date application sent to borrower if application is not received by lender, and from date guarantor receives documentation to date of determination |
| Repurchase of a Non-Bankruptcy Claim[6] | The period that the loan was held by the guarantor due to a claim purchase |
| Death | Date after mandatory administrative forbearance due to reliable notification of death ends to date lender receives death certificate or other acceptable documentation, not to exceed 60 days |
| Closed School | Period of unofficial closure notice as specified by guarantor |
| Closed School or False Certification[6] | 60 days from date application sent to borrower if application is not received by lender, and from date guarantor receives documentation to date of determination |
| False Certification—Identity Theft[6] | Date eligibility requirements sent to individual to date request and documentation returned, not to exceed 60 days; and from date guarantor receives documentation to date of determination |
| Delinquency after Deferment or Mandatory Forbearance[6] | Deferment or mandatory forbearance end date to establishment of next payment due date |
| Documentation Collection and Processing[6] | Date borrower requests deferment, forbearance, change in repayment plan, or loan consolidation to date supporting documentation is processed by lender, not to exceed 60 days |
| Unpaid Refund Discharge | 60 days from date application sent to borrower if application is not received by lender, and from date guarantor receives documentation to date of determination |
| | The period during guarantor review and ending on the date lender receives the guarantor's determination for a borrower who requests a review of a denial determination |
| Unpaid Refund[6] | End date of initial 60-day mandatory administrative forbearance to receipt of completed discharge request, and during period of determination of discharge eligibility |
| New Out-of-School Dates after Conversion[6] | Original repayment start date to adjusted start date |
| Loan Sale or Transfer[6] | First date of delinquency to date loan is sold or transferred, if the loan is less than 60 days delinquent |
| Ineligible Summer Bridge Extension[6] | Day after expiration of borrower's last in-school deferment to the 30th day after fall classes begin |
| Cure[6] | Date of earliest unexcused violation to date lender receives a full payment or new signed repayment agreement |
| Natural Disasters, Local or National Emergency, Military Mobilization[6] | From date borrower affected, not to exceed 3 months for each occurrence |
| Repayment Alignment-SLS/Stafford[4] | First payment due date to last day of the longest applicable Stafford loan grace period |
| Repayment Alignment-PLUS/Stafford[10] | Until end of in-school deferment or post-enrollment deferment on PLUS loan disbursed on or after July 1, 2008, or until end of grace on Stafford loan |

Note: For detailed information about each forbearance situation, refer to the applicable subsection.

1 Lender must document the borrower's request, the reason for the forbearance, and the terms of the forbearance agreement.

2 For borrowers only.

3 A request and supporting documentation from the authorized official(s) indicating the beginning and ending dates, and a verbal or written agreement are required.

4 A request is required.

5 A request and supporting documentation of monthly income and monthly payments on Title IV education loan obligations, and a verbal or written agreement are required.

6 Lender must notify the borrower (or individual or endorser, if applicable) and document the beginning and ending dates and reason for the forbearance in borrower history record.

7 Notice from the Department or guarantor is required.

8 Documentation showing borrower is subject to a military mobilization is required.

9 For military service that begins on or after October 1, 2007, or includes that date.

10 Lender must notify borrower forbearance has been granted; notice must inform borrower of option to cancel forbearance and continue paying on the PLUS loan.

## 11.21 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:

### 11.21.A Bankruptcy Filing

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)(4) and (8); §682.402(f)(5); §685.205(b)(6)(v)]

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 13. For more information on the suspension of collection during bankruptcy, see Subsection 12.3.A.

If the lender files 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.

### 11.21.B 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)]

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 11.6.D.

### 11.21.C Closed School or False Certification by the School

If a guarantor or the Department notifies a lender, or the lender receives reliable information from another source (such as a telephone call or letter from the borrower) that a borrower may be eligible for a closed school or false certification loan discharge, the lender must grant an administrative forbearance on any affected loan for a period not to exceed 60 days, beginning no earlier than the date that the loan discharge application for closed school or false certification is sent to the borrower. If a closed school or false certification loan discharge may be applicable to any underlying loan(s) of a Consolidation loan, the lender must suspend collection activity and grant this administrative forbearance on the entire Consolidation loan. If the borrower fails to return the discharge application within the time frame required, the lender must end the administrative forbearance and the loan's delinquency resumes at the point at which collection activity was suspended.

In addition, the lender may grant an administrative forbearance for periods needed by the Department or the guarantor to determine the borrower's eligibility for discharge because of the borrower's receipt of a loan for attendance at a school that has closed or the false certification of loan eligibility (see Subsections 13.8.B for information regarding closed school loan discharge and 13.8.D for information regarding false certification loan discharge). If the discharge is denied, the lender must resume collection activity on the loan within 30 days of the lender's receipt of the denial notice from the guarantor. The lender may capitalize interest accrued during the forbearance period and the loan's delinquency resumes at the point at which collection activity was suspended.

The lender must clearly indicate in the servicing history that an administrative forbearance was granted due to the borrower's potential eligibility for loan discharge.
[§682.211(f)(8); §682.402(d)(7)(i) and (ii); §685.214(f)(2) and (4)]

## 11.21.D
## False Certification as a Result of the Crime of Identity Theft

If a guarantor or the Department notifies a lender, or the lender receives reliable information from another source (such as a telephone call or letter from the individual named as the borrower) that an individual may be eligible for a false certification loan discharge as a result of the crime of identity theft, the lender must grant an administrative forbearance on any potentially eligible loan for a period not to exceed 60 days, beginning no earlier than the date that the loan discharge eligibility requirements are sent to the individual. If the individual fails to return the discharge documentation within the required time frame, the lender must end the administrative forbearance and the loan's delinquency resumes at the point at which collection activity was suspended.
[§682.211(f)(8); §682.402(e)(12); §685.215(d)(2)]

If a lender receives a valid identity theft report (as defined in Section 603(g)(4) of the Fair Credit Reporting Act) or notification from a nationwide consumer reporting agency that a borrower's loan may have been the result of the crime of identity theft, the lender may grant an administrative forbearance for a period not to exceed 120 days while the lender determines the legal enforceability of the loan.
[§682.211(f)(6)]

In addition, the lender may grant an administrative forbearance for periods needed by the Department or the guarantor to determine the individual's eligibility for discharge because of false certification as a result of identity theft (see Subsection 13.8.E for information regarding false certification loan discharge as a result of identity theft). If the discharge is denied, the lender must resume collection activity on the loan within 30 days of the lender's receipt of the denial notice from the guarantor. The lender may capitalize interest accrued during the forbearance period and the loan's delinquency resumes at the point at which collection activity was suspended.
[§682.402(e)(7)(iii)]

The lender must clearly indicate in the servicing history that an administrative forbearance was granted due to the borrower's potential eligibility for loan discharge for false certification as a result of the crime of identity theft.

## 11.21.E
## Cures

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.

## 11.21.F
## Death

If a lender receives reliable but unofficial notification of a borrower's death, or the death of a student for whom a PLUS loan was made in the case of a PLUS loan or a Consolidation loan that paid in full a PLUS loan, the lender must suspend collection activity on the loan for a period of up to 60 days, until the lender receives documentation of the death. If the lender needs time in addition to the initial 60-day mandatory administrative forbearance period to obtain documentation of the death, the lender may grant an administrative forbearance on the loan for up to an additional 60 days, for a total suspension of collection activity of up to 120 days. This forbearance does not require a written request but the lender must send a notice to the borrower's or endorser's address stating that such a forbearance was granted.

See Subsection 11.23.A for mandatory administrative forbearance requirements regarding death discharges. See Subsection 13.8.C for information on claim filing procedures for loans that are eligible for discharge or partial discharge due to a borrower's death, or the death of a student for whom a PLUS loan was made in the case of a PLUS loan or a Consolidation loan that paid in full a PLUS loan.
[§682.211(f)(7); §682.402(b)(3)]

## 11.21.G
## Delinquency before a Deferment or Certain Forbearances

A lender may process an administrative forbearance to resolve an outstanding delinquency that precedes any of the events listed below. The forbearance may be granted from the date on which the borrower's delinquency began and may be extended through the day before the first date on which the borrower is eligible for:

- A deferment.
- An administrative forbearance granted due to a military mobilization, a local or national emergency, or a natural disaster (see Subsection 11.21.M).
- A mandatory administrative forbearance granted due to exceptional circumstances—a military mobilization, a local or national emergency, or a designated disaster area (see Subsection 11.23.B).
  [§682.211(f)(2); §682.211(f)(12); §682.211(i)(2)]

## 11.21.H
## Delinquency after a Deferment or Mandatory Forbearance

A lender may grant an administrative forbearance 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)(10)]

## 11.21.I
## Documentation Collection and 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 and process supporting documentation following a borrower's request for a deferment, forbearance, change in repayment plan, or loan consolidation. A new administrative forbearance period for each occurrence may be granted by the lender. The lender must document the reasons for granting each forbearance in the borrower's loan history.
[§682.211(f)(11)]

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)]

## 11.21.J
## Forgiveness under Income-Based Repayment (IBR)

The lender may grant a forbearance for a period not to exceed 60 days in order to collect and process documentation in order to determine a borrower is eligible for loan forgiveness under the income-based repayment plan. If so granted, the lender must notify the borrower that the requirement to make payments on the loan(s) for which forgiveness was requested has been suspended pending approval of forgiveness by the guarantor on each loan. For information on forgiveness under IBR, see Subsection 13.9.D.
[§682.211(f)(13)]

## 11.21.K
## 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)]

## 11.21.L
## 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)(9)]

## 11.21.M
## Natural Disasters, Local or National Emergency, or Military Mobilization

If the lender determines that the ability of the borrower or endorser to make payments is adversely affected by a natural disaster, a local or national emergency (declared by the appropriate government agency), or a military mobilization, the lender may grant an administrative forbearance for a period not to exceed 3 months. The lender must document the reason it granted the forbearance in the borrower's loan file. Continuation of the forbearance beyond the 3-month period based on the same situation requires supporting documentation and an agreement with the borrower or endorser.
[§682.211(f)(12); Disaster Letter 99-28; DCL GEN-10-16]

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

## 11.21.N
## New Out-of-School Dates after Conversion to Repayment

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.

## 11.21.O
## Repayment Alignment

### Aligning Repayment of a Stafford and SLS Loan

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 or in writing. A separate request is unnecessary when the borrower has signed the Stafford loan Master Promissory Note, which authorizes the lender to align repayment of the borrower's Stafford and SLS loans.

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 Subsection 10.4.C.
[§682.209(a)(2)(iii); DCL 96-L-186/96-G-287, Q&As #19 and #24]

### Aligning Repayment of a PLUS Loan Not Eligible for a Post-Enrollment Deferment with Another PLUS or Stafford Loan

A lender may grant an administrative forbearance on a borrower's PLUS loan(s) that was first disbursed prior to July 1, 2008, to align repayment with either of the following:

- The end of the in-school or post-enrollment period on the borrower's PLUS loan(s) that is first disbursed on or after July 1, 2008.

- The grace period end date on the borrower's Stafford loan(s).

When granting an administrative forbearance in this situation, the lender must notify the borrower that forbearance has been granted on the PLUS loan. The notice must inform the borrower that he or she may cancel the forbearance and continue paying on the PLUS loan. If a forbearance is granted based on the dependent student's enrollment to align PLUS loan repayment, the lender must monitor the dependent student's enrollment status for both the forborne and deferred PLUS loan(s) or the lender must find an alternative basis for granting a forbearance on the pre-July 1, 2008 PLUS loan(s) that is not eligible for deferment.
[§682.211(f)(15)]

## 11.21.P
## Repurchase of a Non-Bankruptcy Claim

In the case of a repurchase, the lender may administratively forbear the loan during the period the loan was held by the guarantor due to a claim purchase. The capitalization may include interest accrued from the date of the claim payment through the repurchase date. The lender must document that the capitalization was the result of a repurchase. If the repurchase is due to the loan's loss of guarantee, see Subsection 13.3.D.

## 11.21.Q
## Spouses and Parents of Victims of September 11, 2001

If a lender receives information from a borrower or a borrower's representative that the borrower claims to qualify for discharge under the spouses and parents of victims of September 11, 2001, (September 11, 2001) discharge provisions, the lender must grant a forbearance for the borrower, or any endorser as applicable, on the borrower's eligible loan(s). The lender must advise the borrower, or the borrower's representative, to submit a Loan Discharge Application: Spouses and Parents of September 11, 2001, Victims form and all required documentation.
[§682.407(c)(2); §685.218(c)(2)]

If the lender determines that the borrower does not qualify for a discharge, or the lender does not receive the required documentation within 60 days of the notification that the borrower claims to qualify for the discharge, the lender must resume collection. The lender is considered to have exercised forbearance from the date of the borrower's notification. The lender may capitalize any interest accrued and not paid during the forbearance period.
[§682.407(c)(3); §685.218(c)(3)]

If the lender receives the required documentation and determines that the borrower qualifies for a discharge, the lender must file a discharge claim with the guarantor and the lender must continue the forbearance until the date that the guarantor makes the discharge determination.
[§682.407(c)(7)]

## 11.21.R
## Total and Permanent Disability

If the lender receives information indicating that a borrower has become totally and permanently disabled, the lender must continue collection activities until it receives either the certification of total and permanent disability from a physician or a letter from a physician stating that the borrower has requested the certification and that the physician needs additional time to determine if the borrower is totally and permanently disabled.

If the lender receives a written request from 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 cannot exceed 60 days from the date the lender receives the physician's request for additional time. 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 13.8.G.
[§682.402(c)(5)(i)]

If a comaker of a joint Consolidation loan or PLUS loan applies for a total and permanent disability loan discharge, the lender must continue servicing the loan for the non-disabled comaker. The lender must protect the status of the loan during the conditional discharge period so that the loan does not become delinquent or more delinquent. The lender may apply an administrative forbearance on the entire loan if the non-disabled comaker is not eligible for or does not choose another repayment option, deferment, discretionary forbearance, or reduced-payment forbearance. The administrative forbearance may not begin prior to the date the lender receives the disabled comaker's loan discharge application, or the date the lender receives the notification from the guarantor that one comaker is totally and permanently disabled, whichever is earlier. The forbearance ends on the date that the lender receives notice of the disabled comaker's final discharge determination.

## 11.21.S
## Unpaid Refund Discharge

If a guarantor or the Department notifies a lender, or the lender receives reliable information from another source (such as a telephone call or letter from the borrower) that a borrower may be eligible for an unpaid refund loan discharge, the lender must grant an administrative forbearance on any affected loan. If an unpaid refund loan discharge may be applicable to any underlying loan(s) of a Consolidation loan, the lender must suspend collection activity and grant this forbearance on the entire Consolidation loan. A lender must forbear payments of principal and interest that are delinquent or that would be due during all of the following periods.

- The period beginning on the date the lender or guarantor sends the borrower an unpaid refund loan discharge application and ending on either of the following:
  - The date that the lender receives the guarantor's determination, if the borrower returns the discharge application within 60 days from the date the lender or guarantor sent the application.
  - The 60th day, if the borrower does not return the discharge application within 60 days from the date the lender or guarantor sent the application. See below for more information about forbearance a lender may grant when the lender receives a completed discharge application after this initial 60-day period.
- The period beginning on the date the lender receives notification from the guarantor of the borrower's request for a review of a denial determination and ending on the date that the lender receives the guarantor's determination.

If the lender receives the borrower's unpaid refund discharge application more than 60 days from the date on which the lender or guarantor sent the discharge application to the borrower, the lender may grant an additional administrative forbearance on any affected loan. This forbearance may cover the period from the end of the initial 60-day administrative forbearance to the receipt of the completed discharge application.

In addition, after the lender receives the discharge application, the lender may grant another administrative forbearance to cover the period needed by the guarantor to determine the borrower's eligibility for an unpaid refund discharge.

The lender must notify the borrower or endorser that a forbearance was granted for any of the above periods. See Subsection 13.8.H for more information on unpaid refund discharges.
[§682.402(l); §685.216(e)]

## 11.21.T
## Repayment Plan Change

The lender may grant an administrative forbearance to cover a period of delinquency that exists at the time a borrower chooses a different repayment plan— for example, from standard to income-based.
[§682.211(f)(14)]

## 11.22
## Discretionary Forbearance

A lender is encouraged to grant a discretionary forbearance to assist a borrower or endorser in fulfilling the repayment obligations on the loan and to help prevent default. The lender may grant forbearance based on either a written or verbal agreement with the borrower. (See Subsection 11.20.B for more information about a lender's responsibilities when a forbearance is based on a verbal agreement.) Situations in which the lender may choose to grant forbearance include, but are not limited to:

- The borrower has personal problems (such as economic hardship) that 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 10.11.C for information on changing due dates).

If the discretionary forbearance is based on a verbal agreement, the lender must send, within 30 days of that agreement, a notice to the borrower or endorser confirming the terms of the forbearance.

## 11.22.A Reduced-Payment Forbearance

One type of discretionary forbearance a lender may grant is a reduced-payment forbearance. Under this type of discretionary forbearance, the borrower or endorser and the lender agree to establish temporary payment terms for the duration of the forbearance that may be inconsistent with the minimum annual payment amount. This agreement may be verbal or written.

When establishing the temporary payment terms for the period of forbearance, the lender and borrower or endorser may agree to a payment amount that is greater than, equal to, or less than the amount of accruing interest.

As with other types of discretionary forbearance, a lender must obtain a signed forbearance agreement that establishes the terms of the forbearance or document the terms of any verbal agreement. If the reduced-payment forbearance agreement is verbal, the lender must document the borrower's request, the reason for the forbearance, and the terms of the forbearance agreement. The lender must also send, within 30 days of the agreement, a notice to the borrower or endorser confirming the terms of the forbearance agreement. In addition to other applicable forbearance notification requirements (see Section 11.20), the lender must provide the following information regarding the reduced-payment forbearance in its notification to the borrower or endorser:

- The required payment amount during the reduced-payment forbearance.
- The address to which payments must be sent.
- The consequences, if any, of delinquency on the payments required during the forbearance period.

If a borrower or endorser fails to fulfill his or her agreement to make payments during the reduced-payment forbearance, the lender must comply with the terms of the forbearance agreement and, if included in the terms and if applicable, perform collection activities and file a claim. For more information on due diligence activities during a reduced-payment forbearance, see Section 12.4.

## 11.23 Mandatory Administrative Forbearance

A lender must grant a mandatory administrative forbearance when applicable. This type of forbearance does not require the borrower's request or a forbearance agreement between the lender and the borrower. As soon as feasible, the lender must notify the borrower or endorser that the lender has granted a forbearance and indicate the date that payments should resume. See Subsection 11.20.I for information regarding the notices that the lender must send when granting a forbearance and during the forbearance period.

Any outstanding delinquency that precedes the beginning date of a mandatory administrative forbearance period cannot be resolved by the mandatory administrative forbearance. See Subsections 11.20.G and 11.21.G for more information about resolving a delinquency that precedes a mandatory administrative forbearance. [HEA §428(c)(3); §682.211(i)(1) and (2)]

## 11.23.A Death

The lender must grant a mandatory administrative forbearance after receiving reliable but unofficial notification that the borrower died, or in the case of a parent PLUS loan or a Consolidation loan that paid in full a parent PLUS loan, the student for whom a parent PLUS loan was made died. This mandatory administrative forbearance ends when the lender receives documentation of the death, but in no case can it exceed 60 days. This type of forbearance does not require a request nor is the lender required to notify the borrower or endorser that such a forbearance was granted.

See Subsection 11.21.F for the administrative forbearance period applicable to death discharges. See Subsection 13.8.C for information on claim filing procedures for loans that are eligible for discharge or partial discharge due to a borrower's death, or the death of a student for whom a PLUS loan was made in the case of a PLUS loan or a Consolidation loan that paid in full a PLUS loan. [§682.211(i)(6); §682.402(b)(3)]

## 11.23.B
## Exceptional Circumstances

For the following three types of forbearance, the lender is not required to notify the borrower or endorser at the time forbearance is granted, but must do so as soon as feasible (for more information about the content of the required notice, see Section 11.23). 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. 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:
[§682.211(i)(2) and (3)]

#### 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.

#### 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 688, 12301(a), 12301(g), 12302, 12304, and 12306 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.

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

#### Disaster

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.

## 11.23.C
## Repayment Accommodation

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(i)(5)]

For more information on repayment terms, see Section 10.6.

## 11.23.D
## Teacher Loan Forgiveness

If a guarantor notifies a lender, or the lender receives reliable information from another source (such as a telephone call or letter from the borrower) that a borrower may be eligible for teacher loan forgiveness, the lender must grant a mandatory administrative forbearance on any affected loan for payments of principal and interest that are delinquent or that would be due during the following periods:

- For a period not to exceed 60 days while the lender is awaiting a completed Teacher Loan Forgiveness Application from the borrower.

- For the period beginning on the date that the lender receives a completed Teacher Loan Forgiveness Application and ending on the date the lender receives a denial of the forgiveness application or the forgiveness amount from the guarantor. [§682.216(e)(1)(ii) and (iii)]

If teacher loan forgiveness may be applicable to any Stafford loan(s) that was paid in full by a Consolidation loan, the lender must grant this forbearance on the entire Consolidation loan.

See Subsection 13.9.A for more information about teacher loan forgiveness.

## 11.24 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. A lender and the borrower may agree to the terms of the forbearance verbally or in writing. A lender that grants a forbearance based on a verbal agreement with the borrower must record the forbearance terms in the borrower's file and send a notice to the borrower confirming the terms of the forbearance agreement.

### 11.24.A 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 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(h)(2) and (4)]

### 11.24.B Medical or Dental 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 a medical or dental internship/residency deferment.

- The borrower's promissory note does not provide for a medical or dental internship/residency deferment.

Eligibility requirements are the same as for a borrower who has requested a medical or dental internship/residency deferment (see Section 11.7), except that the borrower does not need to be a new borrower before July 1, 1993, to qualify for forbearance. In addition, the documentation requirements are the same for both deferment and forbearance (see Subsection 11.7.A). A lender must grant forbearance in 12-month increments unless the actual period during which a borrower is eligible is less than 12 months. See Subsection 11.20.I for information regarding notices that the lender must send when granting forbearance and during the forbearance period.

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 a borrower in an internship or residency that is not in the medical or dental field, the borrower may qualify for a mandatory forbearance based on the criterion that the borrower's debt payments exceed his or her monthly income (see Subsection 11.24.A) or for a discretionary forbearance (see Section 11.22).

## 11.24.C
## National Service, Loan Forgiveness, Department of Defense Repayment, or Active Military State Duty

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). 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 the period the borrower is serving in a national service position.

- 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. 2171. 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(h)(4)(ii)]

- Maintains eligibility for loan forgiveness under the Teacher Loan Forgiveness Program and, at the time of each annual request, the lender believes that the cancellation amount will satisfy the anticipated outstanding loan balance at the time of the expected cancellation. Before granting a forbearance to a borrower, the lender must require the borrower to submit the following:

  - Documentation showing the beginning and anticipated ending dates of the period during which the borrower expects to perform the qualifying teacher service for that year (see Subsection 13.9.A).
  - A self-certifying statement of the borrower's intent to satisfy the teacher loan forgiveness requirements.
    [§682.211(h)(2)(ii)(C);§682.211(h)(4)(iii); §682.215(e)(1)(i)]

- Serves on active military state duty as a member of the National Guard (including a member in retired status) during a time when the governor activates National Guard personnel for active state duty for a period of more than 30 consecutive days, and the Guard's activities are paid with state or federal funds. The forbearance is for a borrower who qualifies for a post-active duty student deferment, but who does not qualify for a military service deferment or other deferment while engaged in active military state duty (see Section 11.12 for more information on the post-active duty student deferment). The forbearance begins on the day after the end of the grace period for a Stafford loan that has not entered repayment, or begins on the day after the end of the in-school deferment for a FFELP loan in repayment.

Note: Lenders may offer discretionary forbearance to borrowers who do not qualify for mandatory forbearance.

## 11.24.D
## 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.

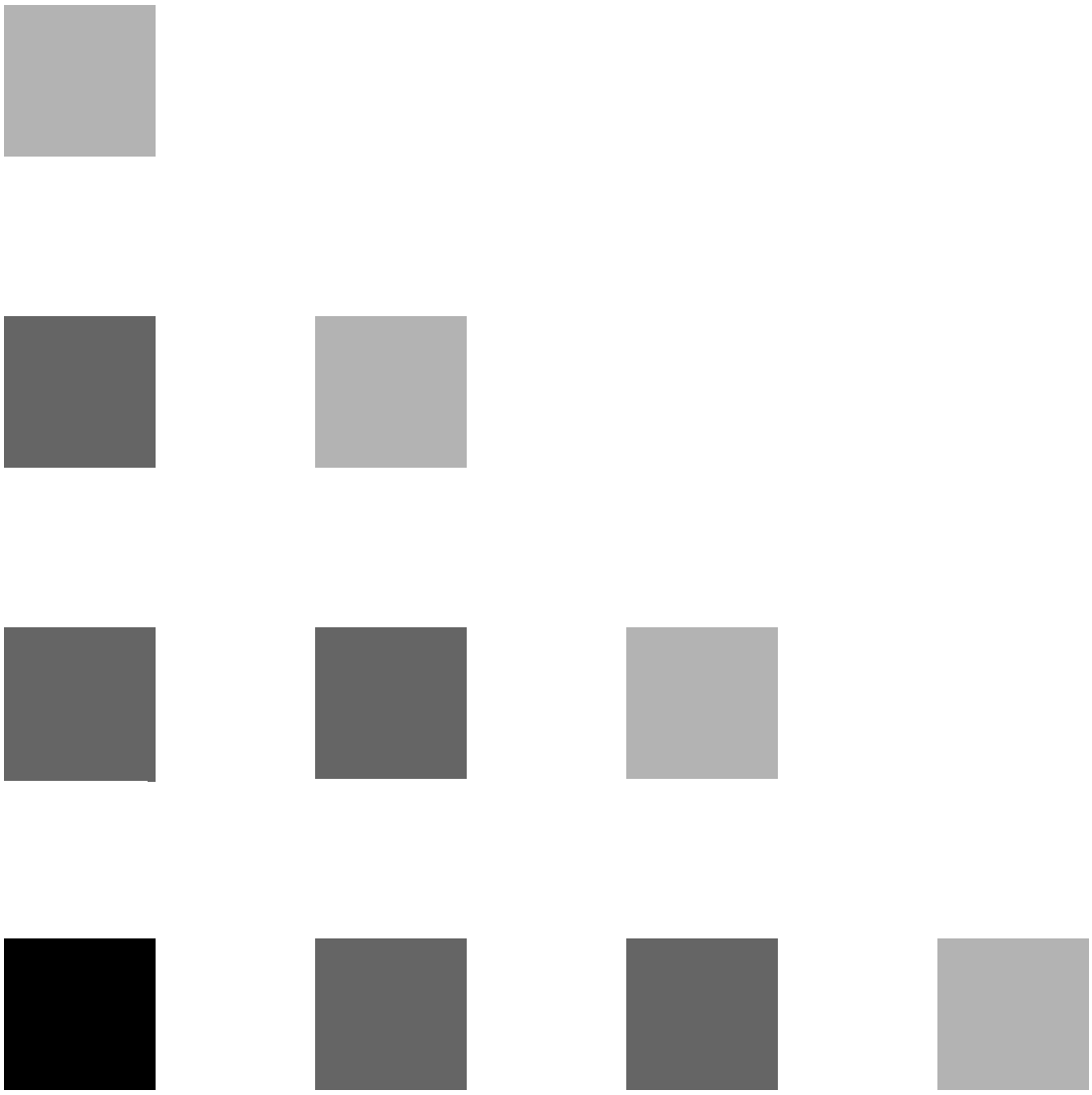
This page intentionally left blank.

# Tab Locator Page

## Remove this page and replace with tab divider.

# Tab Locator Page

## Remove this page and replace with tab divider.



# 12 Due Diligence in Collecting Loans


| | | |
|---|---|---|
| 12.1 | Collection Philosophies, Goals, and Minimum Standards | 1 |
| 12.1.A | Lender Disclosure Requirements | 1 |
| 12.2 | Situations Requiring Collection Activities | 2 |
| 12.3 | Factors Relating to Collection Activities | 2 |
| 12.3.A | Bankruptcy Petition Filing | 2 |
| 12.3.B | Deferment of Loans in Delinquency or Default | 2 |
| 12.3.C | Forbearance Option | 3 |
| 12.3.D | Payment Application during Delinquency | 3 |
| 12.3.E | Rolling Delinquency | 3 |
| 12.3.F | Special Occurrence | 3 |
| 12.3.G | Collection Costs and Late Charges | 4 |
| 12.4 | Due Diligence Requirements | 4 |
| 12.4.A | Due Diligence Requirements for Loans with Monthly Repayment Obligations | 5 |
| 12.4.B | Due Diligence Requirements for Loans with Repayment Obligations Less Frequent Than Monthly | 11 |
| 12.4.C | Written Notices and Collection Letters | 13 |
| 12.4.D | Contact by Telephone | 13 |
| 12.4.E | Endorser Due Diligence | 14 |
| 12.4.F | Ineligible Borrower Due Diligence | 15 |
| 12.5 | Default Aversion Assistance | 16 |
| 12.5.A | Default Aversion Assistance Request (DAAR) | 16 |
| 12.5.B | Default Aversion Assistance Request Form | 17 |
| 12.5.C | Default Aversion Assistance and Bankruptcy Filing | 20 |
| 12.6 | Final Demand Letter | 20 |
| 12.7 | Address Skip Tracing | 21 |
| 12.7.A | Timing of Address Skip Tracing Activities | 21 |
| 12.7.B | Address Skip Tracing When the Loan Is Not Delinquent | 21 |
| 12.7.C | Required Address Skip Tracing Activities | 22 |
| 12.7.D | Endorser Address Skip Tracing Requirements | 22 |
| 12.7.E | Address Skip Tracing Exceptions | 22 |
| 12.8 | Telephone Skip Tracing | 23 |
| 12.8.A | Telephone Skip Tracing Activities | 24 |
| 12.8.B | Endorser Telephone Skip Tracing Requirements | 24 |
| 12.9 | Resuming Loan Servicing after Claim Return | 24 |

This page intentionally left blank.

Chapter 12 identifies the minimum due diligence requirements to which lenders must adhere in order to retain the guarantee on the loan. Due diligence is the term used to describe the required activities and timelines applicable to the collection of FFELP loans.

Compliance with due diligence requirements is crucial; failure to meet these requirements within their respective time frames may result in an inability to collect the loan, rejection of a lender's claim, cancellation of the guarantee on the loan, or a reduction of the interest that would normally be paid at the time of claim purchase. Except as detailed in Subsection 12.4.B and as noted otherwise throughout this chapter, due diligence requirements described in this chapter are for loans with monthly repayment obligations. Lenders with loans with repayment obligations less frequent than monthly should contact their guarantor with questions regarding the unique servicing requirements for these loans. (See Section 1.5 for guarantor contact information.)

The lender must adhere to the federal requirements to ensure prompt collection of any delinquent loan payments and to preserve the guarantee on the loan. These requirements 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 these requirements. However, these requirements do not preempt the provisions of the Fair Credit Reporting Act (FCRA) that provide relief to a borrower while a lender determines the legal enforceability of a loan after receiving a valid identity theft report or notification from a nationwide consumer reporting agency of an alleged identity theft.
[§682.411(o)]

Any reference to a borrower in this chapter also refers to any applicable comaker—one of two PLUS borrowers who are jointly and severally liable for repayment (as applicable to a PLUS loan made prior to April 16, 1999) or one of two Consolidation loan borrowers who are jointly and severally liable for repayment (as applicable to a Consolidation loan made from an application received by the consolidating lender prior to July 1, 2006). Therefore, due diligence activities required for the borrower are also required for the comaker. 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.
[§682.507(a)(2)]

Endorser requirements differ from those for borrowers and comakers, and are identified in each applicable section and highlighted in Subsection 12.4.E.

## 12.1 Collection Philosophies, Goals, and Minimum Standards

The lender's collection practices must focus on preventing the default of its delinquent and ineligible borrower loans. The lender should develop a systematic and thorough approach to collecting on its loans, using, at a minimum, the due diligence standards prescribed in this chapter. In addition, the lender may use its own consumer loan collection practices. Lenders are strongly encouraged to develop standards that are in the best interest of both borrowers and the FFELP.

## 12.1.A Lender Disclosure Requirements

When a borrower is 60 days delinquent, the lender must provide a notice with all of the following information in simple and understandable terms:

- The date on which the loan will default if no payment is made.
- As of the date of the notice, the minimum payment the borrower must make to avoid default, including the payment amount needed either to bring the loan current or to pay the loan in full.
- A description of borrower options to avoid default, including a description of, and the requirements for obtaining a deferment or a forbearance and an explanation of any relevant fees or costs associated with such options.
- Loan discharge options for which the borrower may be eligible.
- Additional resources of which the lender is aware from which the borrower may receive additional advice and assistance on loan repayment, including nonprofit organizations, advocates, and counselors (including the Student Loan Ombudsman of the U.S. Department of Education).

The lender must provide this disclosure notice within five days of the date the borrower becomes 60 days delinquent, unless the lender has sent a similar notice to that borrower within the preceding 120 days.
[HEA §433(e)(1); §682.205(a)(5) and (c)(5)]

#### Exception for Invalid Address

A lender is not required to send the disclosures listed above if the lender does not have a valid address for the borrower. However, if the lender receives a valid address for the borrower before the borrower's loan becomes 241 days delinquent, the lender must send the required information not previously provided.
[§682.205(j)]

## 12.2 Situations Requiring Collection Activities

The collection activities that are known as "due diligence" in the FFELP must be performed in the following situations:

- A borrower is delinquent in making payments.
- A lender is unable to determine the address 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).

A loan is considered delinquent if the lender has not received a borrower's payment 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 Section 10.5.
[§682.411(b)]

## 12.3 Factors Relating to Collection Activities

There are a number of factors related to servicing a FFELP loan that lenders must consider in conducting collection activities. The following subsections identify some of these factors.

## 12.3.A Bankruptcy Petition Filing

Lenders must suspend collection activities upon receipt of official notice that the borrower has filed a bankruptcy petition.
[§682.402(f)(2)]

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.

See Subsection 13.8.A for more information regarding acceptable notifications with respect to a borrower's filing of a bankruptcy petition.

## 12.3.B Deferment of Loans in Delinquency or Default

If, at any time during the performance of 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 lender must grant a deferment to a borrower whose delinquent loan is not in default if the borrower is eligible for the deferment. See Subsection 11.1.F for more information about deferment of delinquent loans.
[§682.210(a)(7)]

A lender *must* grant a deferment to a borrower whose loan is in default if the borrower's deferment eligibility began *before* the date of default. A lender *may* grant a deferment to a borrower whose loan is in default if the borrower's deferment eligibility begins *after* the date of default and the borrower makes payment arrangements acceptable to the lender to resolve the default prior to the payment of a default claim by a guarantor. See Subsection 11.1.G for more information about deferment of defaulted loans.
[§682.210(a)(8)]

Collection activities are no longer required if a deferment, or the combination of a deferment and other actions (e.g., forbearance or payments), brings the loan current. If the loan remains delinquent, see Subsections 12.4.A and 12.4.B for more information on collection activities required for a rolling delinquency.

## 12.3.C
## Forbearance Option

A lender is encouraged to grant a discretionary 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, mandatory administrative forbearance, or mandatory forbearance (see Sections 11.1, 11.23, and 11.24, respectively). If either the borrower or the endorser is granted a forbearance for the temporary cessation of payments, collection activities outlined in Section 12.4 must be suspended on the loan.
[§682.211(a); DCL 96-L-186/96-G-287, Q&A #60]

## 12.3.D
## Payment Application during Delinquency

Except for a payment received from a school (i.e., a school refund or a payment to comply with the requirements for the return of Title IV funds), 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 10.11.A).
[§682.411(b)(1); 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 10.11.B).
[§682.209(b)(2)(ii)]

## 12.3.E
## 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 perform all due diligence activities appropriate to the new level of delinquency on the loan.
[§682.411(d)(3)]

A rolling delinquency affects due diligence requirements, as noted in Subsections 12.4.A, 12.4.B, and 12.4.E, and Section 12.5.

## 12.3.F
## 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 occurs, as noted in Subsections 12.4.A, 12.4.B, and 12.4.E, and Section 12.5.

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 delinquent. The lender performs all required skip tracing activities but is unable to obtain a valid address or valid telephone number for the borrower. The loan subsequently becomes delinquent. No due diligence activities are required at this point, except that the lender must file a request for default aversion assistance with the guarantor no earlier than the 60th day and no later than the 120th day of the borrower's delinquency. The lender then receives the borrower's valid address or valid telephone number from the guarantor, school, or another source. A "special occurrence" has taken place. The lender is required to perform due diligence

activities applicable to the contact information it receives and the level of delinquency on the loan at the time it receives the information.

## 12.3.G
## 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. Collection costs 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)]

## 12.4
## Due Diligence Requirements

To satisfy due diligence requirements, a lender must perform the collection activities specified in the schedules in Subsections 12.4.A and 12.4.B. 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 (60 days in the case of a loan sale or transfer) in activity occurs through the 270th day of delinquency (330th day for loans with repayment obligations less frequent than monthly). A violation occurs if a lender fails to complete any of the required activities within the corresponding time frame or if the lender permits a gap of greater than 45 days (60 days in the case of a loan sale or transfer) between activities. If a violation occurs, the lender 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. See Chapter 14 for more information regarding violations and the assessment of penalties.
[§682.411(b)(2); §682.411(k); §682, Appendix D; DCL FP-04-08]

A consolidating lender must perform due diligence activities at the loan level, even if the lender establishes more than a single loan servicing record for the subsidized, unsubsidized, and HEAL portions of the loan. That is, the lender must perform due diligence activities required for the single payment due date and amount disclosed for the single Consolidation loan that contains multiple loan servicing records. If the lender fails to perform due diligence activities on a single payment due date and amount, or fails to grant deferment or forbearance for a single Consolidation loan that contains multiple loan servicing records, the lender may incur due diligence violations sufficient to cause a loss of guarantee on the loan. (See Subsection 14.1.E "Violations and Cures Associated with Unsynchronized Servicing of a Consolidation Loan with Multiple Loan Records.")

### 5-Day Tolerance

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. There is no 5-day tolerance for ICA/location cure due diligence activities. In addition, the 45-day maximum period between due diligence activities is not extended by the 5-day tolerance.
[§682, Appendix D]

### Telephone and Address Skip Tracing

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 Section 12.8) and continue to fulfill other due diligence requirements, such as sending letters or notices and requesting default aversion assistance in a timely manner.
[§682.411(i) and (m)]

If a loan is delinquent and the borrower's or endorser's address is unknown, a lender must perform skip tracing activities (as described in Section 12.7) 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 a loan becomes delinquent, 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.
[§682.411(h); DCL 96-L-186/96-G-287, Q&As #59 and #60]

### Interest-Only Payments and Reduced-Payment Forbearances

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. This applies 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 10.10.C.

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 (see Subsection 11.20.J for information regarding the required notice). [§682.202(b)(6)]

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 or a reduced-payment forbearance (see Subsection 13.6.A).

A lender also may schedule a borrower or endorser for a reduced-payment forbearance. Under this agreement, a borrower's or endorser's scheduled payment amount is temporarily reduced for a time period specified in the forbearance agreement. If a borrower or endorser fails to fulfill his or her agreement to make the reduced payments, the lender must comply with the terms of the forbearance agreement and, if included in the terms of the agreement, perform collection activities and file a claim as applicable.

Collection activities performed in accordance with a reduced-payment forbearance agreement must require payment based on the reduced-payment amount due during the forbearance period. If the loan remains delinquent at the expiration of the reduced-payment forbearance, any collection activities that follow must be based on the applicable monthly payment amounts.

## 12.4.A 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—at a minimum—the following due diligence activities within the noted time frames. In at least one of the collection activities, the lender must inform the borrower of the availability of the Department's Student Loan Ombudsman's office (see Appendix D). [§682.411(b)(3)]

In all cases, the lender must ensure that no gap in collection activity of greater than 45 days (60 days in the case of a loan sale or transfer) occurs through the 270th day of delinquency. See Subsection 14.1.D for a definition of what constitutes a gap in collection activity and information on violations due to gaps in collection activity. [§682.411(b)(2); §682, Appendix D]

If the borrower's address or telephone number is unknown, the lender must follow the skip tracing requirements described in Sections 12.7 and 12.8.

#### 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 at least two 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 12.4.D). [§682.411(d)(1); §682, Appendix D, Q&A #1; DCL 96-L-186/96-G-287, Q&A #53]

- 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, income-based 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 nationwide consumer reporting agencies, 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)]

### Default Aversion Assistance Request Period

The lender must request default aversion assistance from the guarantor no earlier than the 60th day and no later than the 120th day of the borrower's delinquency (see Section 12.5). The lender must request default aversion assistance regardless of the status of the borrower's address (valid, invalid, unknown, etc.). If the default aversion assistance request is canceled and then the borrower's loan again ages to the level at which default aversion assistance is required by the guarantor, the lender must submit a new request for default aversion assistance.
[§682.411(i)]

### 181—270 Days Delinquent

The lender must engage in collection efforts that ensure that no gap in collection activity of greater than 45 days occurs through the 270th day of delinquency. These efforts must urge the borrower to make the required payments on the loan. At a minimum, these efforts must provide the borrower with options to avoid default and advise the borrower of the consequences of defaulting on a loan. The collection efforts must continue until the earlier of the date the lender mails the final demand letter or the 270th day of delinquency. However, any collection effort performed after the date the final demand letter is mailed must support the final demand letter. For more information on collection efforts after the final demand, see *Final Demand Letter* under the following subheading.
[§682.411(e); DCL FP-04-08]

### 241 Days or More Delinquent

*Final Demand Letter*

The lender must mail a final demand letter to the borrower anytime the loan becomes 241 days or more delinquent. There are two exceptions to this requirement that excuse the lender from mailing the borrower a final demand letter:

- The loan becomes 241 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 Subsections 12.3.E and 12.3.F), and the borrower is 241 days or more delinquent.
  [§682.411(h)(3)]

The final demand letter must require the borrower to remit payment in full and warn that if the borrower defaults on the loan, the default will be reported to a nationwide consumer reporting agency. 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(f)]

After mailing the final demand letter, a lender may continue the collection efforts required in the 16–270 days of delinquency time frame. 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 14.3.A).
[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.

### Due Diligence with a Rolling Delinquency or Special Occurrence

If a rolling delinquency or special occurrence (see Subsections 12.3.E and 12.3.F) 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 at least two attempts to contact the borrower by telephone (see Subsection 12.4.D). 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); §682, Appendix D, Q&A #1; 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 at least two attempts to contact the borrower by telephone (see Subsection 12.4.D). 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); §682, Appendix D, Q&A #1; 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 must mail the final demand letter and ensure that no gap of greater than 45 days in collection activity occurs.
[§682.411(b)(2); §682.411(d)(4); DCL FP-04-08]

**Due Diligence in Claim Filing**

*271–360 Days Delinquent*

The lender must file a default claim with the guarantor no later than the 360th day of delinquency (see Subsection 13.6.A). A lender is encouraged to file a default claim on or after the 300th 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 330th 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 330th day of delinquency are not eligible for special allowance payment beyond the 330th day of delinquency.
[§682.302(d)(1)(iv) and (v)]

## Due Diligence Requirements for Loans with Monthly Repayment Obligations and with Repayment Obligations Less Frequent Than Monthly — Figure 12-1

| Borrower/Comaker | | | |
|---|---|---|---|
| Days Delinquent[1] | | Required Collection Activity[3] | |
| Monthly | Less Frequent than Monthly | | |
| 1-15 | 1-15 | 1 collection letter or written notice | |
| 16-180 | 16-240 | 4 diligent telephone efforts<br><br>**Monthly Repayment Obligations**<br><br>At least 1 diligent effort on or before the 90th day of delinquency and 1 diligent effort after the 90th day of delinquency<br><br>AND<br><br>4 collection letters | 4 diligent telephone efforts<br><br>**Less Frequent than Monthly Repayment Obligations**<br><br>At least 1 diligent effort on or before the 120th day of delinquency and 1 diligent effort after the 120th day of delinquency<br><br>AND<br><br>4 collection letters |
| 60-120 | 60-120 | Default Aversion Assistance Request (DAAR) | |
| 181-270[2] | 241-330[2] | Any collection efforts that urge the borrower to make required payments on the loan | |
| On or after 241[2] | On or after 301[2] | 1 final demand letter | |
| 271-360 | 331-420 | Claim filing | |

| Endorser | | |
|---|---|---|
| Days Delinquent[1] | | Required Collection Activity |
| Monthly | Less Frequent than Monthly | |
| 1-180 | 1-240 | 1 diligent telephone effort<br><br>AND<br><br>2 collection letters |
| On or after 241[2] | On or after 301[2] | 1 final demand letter |

1 A lender is permitted a 5-day tolerance at the end of each time frame during which due diligence activities are required, with the exception of filing the claim.

2 Any collection effort (verbal or written) made or performed as made-up activity after the final demand letter is mailed must support the final demand.

3 The timing of the collection activities must ensure that no gaps of greater than 45 days occur through the 270th day of delinquency for loans with monthly repayment obligations and through the 330th day of delinquency for loans with repayment obligations less frequent than monthly.

## Due Diligence with a Rolling Delinquency or Special Occurrence[1] – For Loans with Monthly Repayment Obligations

**Figure 12-2**

| Days Delinquent Following Event | Diligent Efforts to Contact the Borrower by Telephone[2] | Collection Letters[2] | Default Aversion Assistance Request (DAAR)[2] | Collection Efforts 181-270 Days of Delinquency[2] | Final Demand[3] |
|---|---|---|---|---|---|
| 1-15 | During the 16th - 180th day of delinquency: 4 diligent efforts (at least 1 on or before the 90th day of delinquency, and at least 1 after the 90th day of delinquency) | During the 16th - 180th day of delinquency: 4 written notices or collection letters | During the 60th - 120th day of delinquency: if not submitted previously, or if not active, request DAAR | Continue efforts that urge the borrower to make payments on the loan | Send anytime the loan becomes 241 days or more delinquent |
| 16-90 | On or before the 180th day of delinquency: 2 diligent efforts | On or before the 180th day of delinquency: if diligent efforts are unsuccessful, send 2 forceful letters<br><br>If one telephone contact only, send 1 forceful letter on or before the 180th day of delinquency | During the 60th - 120th day of delinquency: if not previously submitted, or if not active, request DAAR | Continue efforts that urge the borrower to make payments on the loan | Send anytime the loan becomes 241 days or more delinquent |
| 91-120 | On or before the 180th day of delinquency: 1 diligent effort | On or before the 180th day of delinquency: if diligent effort is unsuccessful, send 1 forceful letter | During the 60th - 120th day of delinquency: if not previously submitted, or if not active, request DAAR | Continue efforts that urge the borrower to make payments on the loan | Send anytime the loan becomes 241 days or more delinquent |
| 121-+ | No diligent efforts required but must ensure no gaps greater than 45 days | No diligent efforts required but must ensure no gaps greater than 45 days | If not previously submitted, or if not active, request DAAR | Continue efforts that urge the borrower to make payments on the loan | Send anytime the loan becomes 241 days or more delinquent |

1 The timing of the collection activities must ensure that no gaps of greater than 45 days occur through the 270th day of delinquency.

2 A lender is permitted a 5-day tolerance at the end of each time frame during which due diligence activities are required, with the exception of filing the claim.

3 Any collection effort (verbal or written) made or performed as made-up activity after the final demand letter is mailed must support the final demand.

## Due Diligence with a Rolling Delinquency or Special Occurrence[1] – For Loans with Repayment Obligations Less Frequent Than Monthly

**Figure 12-3**

| Days Delinquent Following Event | Diligent Efforts to Contact the Borrower by Telephone[2] | Collection Letters[2] | Default Aversion Assistance Request (DAAR)[2] | Collection Efforts 241-330 Days of Delinquency[2] | Final Demand[3] |
|---|---|---|---|---|---|
| 1-15 | During the 16th - 240th day of delinquency: 4 diligent efforts (at least 1 on or before the 120th day of delinquency and at least 1 after the 120th day of delinquency) | During the 16th - 240th day of delinquency: 4 written notices or collection letters | During the 60th – 120th day of delinquency: if not previously submitted or if not active, request DAAR | Continue efforts that urge the borrower to make payments on the loan | Send anytime the loan becomes 301 days or more delinquent |
| 16-120 | On or before the 240th day of delinquency: 2 diligent efforts | On or before the 240th day of delinquency: if diligent efforts are unsuccessful, send 2 forceful letters<br><br>If one telephone contact only, send 1 forceful letter on or before the 240th day of delinquency | During the 60th - 120th day of delinquency: if not previously submitted or if not active, request DAAR | Continue efforts that urge the borrower to make payments on the loan | Send anytime the loan becomes 301 days or more delinquent |
| 121-180 | On or before the 240th day of delinquency: 1 diligent effort | On or before the 240th day of delinquency: if diligent effort is unsuccessful, send 1 forceful letter | During the 60th - 120th day of delinquency: if not previously submitted, or if not active, request DAAR | Continue efforts that urge the borrower to make payments on the loan | Send anytime the loan becomes 301 days or more delinquent |
| 181-+ | No diligent efforts required but must ensure no gaps greater than 45 days | No diligent efforts required but must ensure no gaps greater than 45 days | If not previously submitted, or if not active, request DAAR | Continue efforts that urge the borrower to make payments on the loan | Send anytime the loan becomes 301 days or more delinquent |

1 The timing of the collection activities must ensure that no gaps of greater than 45 days occur through the 330th day of delinquency.

2 A lender is permitted a 5-day tolerance at the end of each time frame during which due diligence activities are required, with the exception of filing the claim.

3 Any collection effort (verbal or written) made or performed as made-up activity after the final demand letter is mailed must support the final demand.

# 12.4.B
# Due Diligence Requirements for Loans with Repayment Obligations Less Frequent Than Monthly

If a lender has a valid address and telephone number for a borrower with a delinquent account scheduled for repayment in installments less frequent than monthly (such as quarterly), the lender must perform—at a minimum—the following due diligence activities within the noted time frames. In at least one of the collection activities, the lender must inform the borrower of the availability of the Department's Student Loan Ombudsman's office (see Appendix D).
[§682.411(b)(3)]

In all cases, the lender must ensure that no gap in collection activity of greater than 45 days (60 days in the case of a loan sale or transfer) occurs through the 330th day of delinquency. See Subsection 14.1.D for a definition of what constitutes a gap in collection activity and for information on violations due to gaps in collection activity.
[§682.411(b)(2); §682, Appendix D; DCL FP-04-08]

If the borrower's address or telephone number is unknown, the lender must follow the skip tracing requirements described in Sections 12.7 and 12.8.
[§682.411(g) and (h)]

### 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 at least two 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 12.4.D).
  [§682.411(d)(1); §682, Appendix D, Q&A #1; DCL 96-L-186/96-G-287, Q&A #53]

- 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, income-based 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 nationwide consumer reporting agencies, 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)]

### Default Aversion Assistance Request Period

The lender must request default aversion assistance from the guarantor no earlier than the 60th day and no later than the 120th day of the borrower's delinquency (see Subsection 12.5.A). The lender must request default aversion assistance regardless of the status of the borrower's address (valid, invalid, unknown, etc.). If the default aversion assistance request is canceled and then the borrower's loan again ages to the level at which default aversion assistance is required by the guarantor, the lender must submit a new request for default aversion assistance.
[§682.411(i)]

### 241–330 Days Delinquent

The lender must engage in collection efforts that ensure no gap in collection activity of greater than 45 days occurs through the 330th day of delinquency. These efforts must urge the borrower to make the required payments on the loan. At a minimum, these efforts must provide the borrower with options to avoid default and advise the borrower of the consequences of defaulting on a loan. The collection efforts must continue until the earlier of the date the lender mails the final demand letter or the 330th day of delinquency. However, any collection effort performed after the date the final demand letter is mailed must support the final demand letter. For more information on collection efforts after the final demand, see *Final Demand Letter* under the following subheading.
[§682.411(e); DCL FP-04-08]

### 301 Days or More Delinquent

*Final Demand Letter*

The lender must mail a final demand letter to the borrower if the borrower's address is known (see Section 12.6) anytime the loan becomes 301 days or more delinquent. There are two exceptions to this requirement that excuse the lender from mailing the borrower a final demand letter:

- The loan becomes 301 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 Subsections 12.3.E and 12.3.F) and the borrower is 301 days or more delinquent.
[§682.411(h)(3)]

The final demand letter must require the borrower to remit payment in full and warn that if the borrower defaults on the loan, the default will be reported to a nationwide consumer reporting agency. 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(f)]

After mailing the final demand letter, a lender may continue the collection efforts required in the 16–330 days of delinquency time frame. 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 14.3.A).
[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.

### Due Diligence with a Rolling Delinquency or Special Occurrence

If a rolling delinquency or a special occurrence (see Subsections 12.3.E and 12.3.F) 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 at least two attempts to contact the borrower by telephone (see Subsection 12.4.D). 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); §682, Appendix D, Q&A #1; 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 at least two attempts to contact the borrower by telephone (see Subsection 12.4.D). 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); §682, Appendix D, Q&A #1; 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 must mail the final demand letter and ensure that no gap of greater than 45 days in collection activity occurs. [§682.411(b)(2); §682.411(d)(4); DCL FP-04-08]

#### Due Diligence in Claim Filing

*331–420 Days Delinquent*

The lender must file a default claim with the guarantor no later than the 420th day of delinquency (see Subsection 13.6.A). A lender is encouraged to file a default claim on or after the 360th 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 390th 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 390th day of delinquency are not eligible for special allowance payment beyond the 390th day of delinquency.
[§682.302(d)(1)(iv) and (v)]

## 12.4.C
## 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 Subsections 12.4.A and 12.4.B).
[§682.411(c)]

## 12.4.D
## Contact 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. [§682.411(m)(1)(i)]

- At least two attempts to contact the borrower by telephone at a number that the lender reasonably believes to be the borrower's valid telephone number. [§682.411(m)(1)(ii); §682, Appendix D, Q&A #1]

- 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 loan records for a loan held by the lender. For more information on skip tracing to obtain a valid telephone number, see Section 12.8. [§682.411(m)(1)(iii)]

Generally speaking, one actual telephone contact with the borrower, or two attempts to make such contact on different days and at different times, will satisfy the "diligent effort" requirement. However, the "diligent effort" requirement is intended to be a flexible one, requiring the lender to act on information it receives in the course of attempting telephone contact regarding the borrower's actual telephone number and the best time to call and reach the borrower. [§682, Appendix D, Q&A #1]

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. [§682.411(l)(5)]

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. [§682.411(a)]

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]

## 12.4.E Endorser Due Diligence

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. Lenders are required to perform some collection activities to inform any endorser (sometimes referred to as cosigner) of the loan's delinquency. These requirements are defined in this subsection. This subsection also describes some situations in which the lender is excused from endorser due diligence requirements.

### Endorser Due Diligence Activities

The following collection efforts must be performed for any endorser on a FFELP loan. Endorser due diligence may be performed concurrently with borrower due diligence. Before filing a default claim on a loan with an endorser, the lender must:

- Make at least one diligent effort (consisting of one successful contact or at least two attempts) to contact the endorser by telephone (see Subsection 12.4.D). [§682.411(n)(1)(l); §682, Appendix D, Q&A #1]
- Send the endorser at least two collection letters advising the endorser of the loan's delinquent status and urging the endorser to resolve the delinquency. At least one of the letters must warn the endorser of the consequences of default (see Subsections 12.4.A and 12.4.B).
[§682.411(n)(1)(ii)]
- Mail the endorser a final demand letter on or after the 241st day of delinquency, as specified in Section 12.6. 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(n)(2)]

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.
[§682.411(n)(3)]

If a "rolling delinquency" exists on the account and the account rolls forward (becomes more delinquent) 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.
[§682.411(n)(2); DCL 96-L-186/96-G-287, Q&As #59 and #60]

If the lender has not performed all required collection activities 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 refile the claim within the applicable claim refiling time frames (see Subsection 13.2.A). If the lender

makes up the required activity and refiles the claim in a timely manner, no violation will be assessed. [§682.406(a)(3); §682.411(n); December 18, 1992, *Federal Register* comments on §682.411]

#### Releasing the Endorser

A lender may release an endorser from his or her repayment obligation on a loan in any of the following cases. If the loan is only partially discharged, the endorser remains obligated for the undischarged portion of the loan.

- The borrower receives a spouses and parents of victims of September 11, 2001, discharge.
- 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 the student for whom a parent obtained a PLUS loan dies. [§682.402(b)(1) and (4); §685.212(a)(1)]
- The borrower receives a final determination of total and permanent disability loan discharge. [§682.402(c); §685.212(b)]
- The loan is discharged on the basis of undue hardship as a result of an adversary proceeding filed by the endorser before a bankruptcy court. [§682.402(f)]
- The borrower receives a loan discharge based on the dependent student's inability to complete a course of study because the school closes, or due to the false certification of the loan by the school. [§682.402(d) and (e); §685.214(a)(1); §685.215(a)(1)]
- The loan is partially or completely discharged due to an unpaid refund. [§682.402(l); §685.216(a)(1) and (2)]
- 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.
- The endorser becomes totally and permanently disabled after the loan becomes delinquent.
- At the discretion of the guarantor.

## 12.4.F
## Ineligible Borrower Due Diligence

If a borrower is 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 5.17.

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. [§682.412(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(d)]

The lender must allow an ineligible borrower 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 13.6.B for more information regarding ineligible borrower claim filing requirements). [§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. [§682.412(e)(2)]

If the borrower repays the full amount demanded, the lender must refund to the Department, on its next quarterly Lender's Interest and Special Allowance Request and Report (LaRS report), 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)]

## 12.5 Default Aversion Assistance

Default aversion assistance is collection assistance that a guarantor provides to supplement a lender's efforts to prevent default on a borrower's loan, but that does not replace the lender's responsibility 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. [§682.404(a)(2)(ii)]

## 12.5.A Default Aversion Assistance Request (DAAR)

A lender must submit a complete and accurate request for default aversion assistance no earlier than the 60th day and no later than the 120th day of the borrower's delinquency. [§682.411(i)]

This time frame is referred to as the default aversion assistance request period. In the absence of evidence to the contrary, the guarantor will monitor timely default aversion assistance request submission based on the lender's collection history. The lender must request default aversion assistance through the Default Aversion Assistance Request Form (see Subsection 12.5.B) or an equivalent electronic process, such as the Common Account Maintenance (CAM) reporting process. In the case of a delinquent borrower whose address is invalid, the lender's request for default aversion assistance should also indicate that the borrower is a "skip." [§682.411(i) and (l)(4)]

If the lender submits a request for default aversion assistance after the 5th day following the default aversion 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 a lender fails to request default aversion assistance between the 60th and 120th day of delinquency, inclusive, and the lender later submits a claim on that loan, the lender will be subject to an interest penalty. If the lender fails to file a request by the 330th day, it will not be entitled to receive interest, interest benefits, and special allowance for the most recent 270 days preceding the date on which the loan defaults. [§682.411(i); §682, Appendix D]

A guarantor's default aversion 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 default aversion assistance cancellation date—preferably through the regular submission of the appropriate guarantor's reports.

If the default aversion assistance request is canceled and then the borrower's loan again ages to the level at which default aversion assistance is required by the guarantor, the lender must submit a new request for default aversion 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 default aversion assistance cancellation date—it is not necessary to submit a new request. However, the lender must notify the guarantor of any changes in the delinquency status of the loan that result in a change to the payment due date—even if the delinquency is not reduced below the point at which the guarantor requires default aversion 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.

Figure 12-4 lists the guarantor time frames applicable to several default aversion assistance activities.

# 12.5.B
# Default Aversion Assistance Request Form

The Default Aversion Assistance Request Form is designed to be used by a lender as a request for default aversion assistance. All loans included on the Default Aversion Assistance Request Form must have the same loan type, due date, and interest-paid-through date. Subsidized and unsubsidized Stafford loans under this subsection are considered the same loan type.

### Default Aversion Assistance Request Instructions

If a lender submits a request for default aversion 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.

The lender must provide the requested information or resubmit any rejected default aversion assistance request.

Figure 12-5 will help lenders determine what information must be provided on the default aversion assistance request. Detailed descriptions of these items are located in the instructions on the Default Aversion Assistance Request Form.

- ▲ Lenders may contact individual guarantors for more information on required data elements associated with the form or its equivalent electronic process. See Section 1.5 for contact information.

## Default Aversion Assistance (DAA) Time Frames — Figure 12-4

| Guarantor | DAA Cancellation Date[1] | Skip DAA Available[2] | Deadline for Refiling Rejected DAA Request[3] |
|---|---|---|---|
| Alaska Commission on Postsecondary Education | 30 | 60-120 | 150 |
| American Education Services/Pennsylvania Higher Education Assistance Agency | 30 | All | 120 |
| American Student Assistance | 30 | 60-120 | None* |
| California Student Aid Commission/EdFund | 0 | 60-120 | 150* |
| College Assist | 0 | All | 150* |
| Educational Credit Management Corporation | 0 | All | 120 |
| Finance Authority of Maine | 30 | 60-120 | None* |
| Florida Department of Education | 0 | 60-120 | 120 |
| Georgia Higher Education Assistance Corporation | 30 | 60-120 | 150* |
| Great Lakes Higher Education Guaranty Corporation | 30 | 60-120 | 150* |
| Illinois Student Assistance Commission | 30 | All | 150* |
| Iowa College Student Aid Commission | 0 | All | 150* |
| Kentucky Higher Education Assistance Authority | 30 | All | None* |
| Louisiana Student Financial Assistance Commission | 30 | 60-120 | 150* |
| Michigan Higher Education Assistance Authority | 0 | 60-120 | 150* |
| Missouri Department of Higher Education | 30 | 60-120 | 150* |
| Montana Guaranteed Student Loan Program | 30 | All | 150* |
| National Student Loan Program | 0 | 60-120 | 150* |
| New Hampshire Higher Education Assistance Foundation | 60 | None | None* |
| New Jersey Higher Education Student Assistance Authority | 60 | All | 150* |
| New Mexico Student Loan Guarantee Corporation | 30 | All | 120* |
| New York State Higher Education Services Corporation | 30 | All | 150* |
| North Carolina State Education Assistance Authority | 30 | All | 150* |
| Northwest Education Loan Association | 30 | 60-120 | None* |
| Oklahoma State Regents for Higher Education | 30 | 60-120 | 150* |
| Rhode Island Higher Education Assistance Authority | 0 | None | 150 |
| South Carolina Student Loan Corporation | 30 | 60-120 | None* |
| Student Loan Guarantee Foundation of Arkansas | 30 | 60-120 | 150* |
| Student Loans of North Dakota | 60 | All | 150* |
| Tennessee Student Assistance Corporation | 30 | 60-120 | 150* |
| TG | 30 | All | 150* |
| United Student Aid Funds, Inc. | 30 | 60-120 | None* |
| Utah Higher Education Assistance Authority | 0 | All | 120 |
| Vermont Student Assistance Corporation | 30 | None | None* |

[1] If the delinquency date falls on 0 days delinquent (for guarantors with an entry of 0), or below 30 or 60 days delinquent (for guarantors with an entry of 30 or 60, respectively), the lender must notify the guarantor to cancel the request for DAA.
**Guarantor time frames may be either: 0, 30, or 60**

[2] 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" specifies that skip DAA is available throughout the life of the loan. An entry of "none" specifies that the guarantor does not offer skip DAA.
**Guarantor time frames may be either: All, 60-120, or None**

[3] The deadline, expressed in number of days delinquent, for the lender to refile the request for DAA that was originally filed timely (within the 60-120 day period), but was rejected by the guarantor. Resubmissions that occur by the deadline are considered to be timely submitted DAA requests, for which a subsequent claim would be paid without a DAA penalty. An entry of "none" specifies that the corrected DAA must be resubmitted before a subsequent claim is reviewed. Resubmissions that occur after these deadlines are subject to the interest penalties and special allowance limitations described in Appendix D of §682.
**Guarantor time frames may be either: 120, 150, or None, * as long as the original request was filed during the 60-120 day DAA request period.**

## Information to Be Provided on the Default Aversion Assistance Request Form Figure 12-5

| Field Name | Required[1] | If Available[2] |
|---|---|---|
| **DEFAULT AVERSION INFORMATION** | | |
| Default Aversion Type | • | |
| Request Date | • | |
| **BORROWER INFORMATION** | | |
| Social Security # | • | |
| Name (Last, First MI) | • | |
| AKA | | • |
| Address and Valid? | • | |
| Address Effective Date | | • |
| Home #, Work #, Other # | | • |
| Home #, Work #, Other #, and Valid? | • | |
| Employer | | • |
| Last School Attended | • | |
| Code | | • |
| OSD | | • |
| **REFERENCE INFORMATION** | | |
| Name and Address | •[3] | |
| Valid? | • | |
| Relationship | | • |
| Home #, Other # | | • |
| Home #, Other, and Valid? | • | |
| **LOAN INFORMATION** | | |
| Loan Type | • | |
| Loan ID | • | |
| 1st Disb Dt | • | |
| $ Curr Prin Bal | • | |
| $ Accrued Int | • | |
| Dt Loan Sold | • | |
| Dt Servicer Resp | • | |
| Pmt Due Dt | • | |
| $ Pmt Amt | • | |
| Last Pmt Dt and $ Last Pmt Amt | | • |
| $ Amt Delinq | • | |
| # Days Delinq | • | |
| Deferment and Forbearance Information | | • |
| **ENDORSER/COMAKER/PLUS STUDENT (E/C/S) INFORMATION** | | |
| Loan ID | • | |
| E/C/S Code, E/C/S Name | •[3] | |
| Social Security # | •[3] | |
| E/C Address | •[3] | |
| E/C Address and Valid? | • | |
| E/C Home # | | • |
| E/C Home # and Valid? | • | |
| PLUS Student's Address | | • |
| PLUS Student's Address and Valid? | • | |
| PLUS Student's Home # | | • |
| PLUS Student's Home # and Valid? | • | |
| **LENDER/SERVICER INFORMATION** | | |
| Lender ID | • | |
| Servicer ID | • | |
| Lender/Servicer Name, Lender/Servicer Address | • | |
| Borrower Contact and Contact # | • | |
| Prepared by and Preparer's # | • | |

1 Refers to information the lender must provide on the default aversion assistance request.

2 Refers to information the lender may or may not have. If the lender has the information, it must be provided on the default aversion assistance request.

3 Refers to information the lender must provide on the default aversion assistance request for 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 default aversion assistance request.

## 12.5.C
## Default Aversion Assistance and Bankruptcy Filing

If the lender has received a Notice of the First Meeting of Creditors (the Notice) or other proof of filing from the borrower's attorney or the bankruptcy court (either directly 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 default aversion assistance request to the guarantor. Further, if the lender has already requested default aversion 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 default aversion activities based on a bankruptcy action filed on the borrower's loans.
[§682.402(f)(2)]

A guarantor will permanently cancel a loan's guarantee if either of the following conditions occurs:

- The lender requests default aversion assistance on a loan on which it has received notice of a bankruptcy action.

- The lender fails to timely notify the guarantor, within 5 business days, to cease collection activity on a loan on which default aversion assistance was previously requested.

The loss of guarantee will be considered permanent and is based solely on whether the lender's failure to comply with these provisions results in the court's determining the loan to be unenforceable. 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. For more information on the suspension of collection during bankruptcy, see Subsection 13.8.A.

In some cases, the lender will receive notice that the bankruptcy action has ended and the loan remains enforceable. These loans were deemed by the court as nondischargeable in the bankruptcy action, the bankruptcy case was dismissed, or the discharge was reversed. In each case, 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 13.8.A, and bring the loan current.

If the lender permits a period of delinquency to remain on the loan after the bankruptcy action is concluded, and that delinquency is beyond the period when a request for default aversion assistance would have been generated, the lender must request default aversion assistance from the guarantor. That request must occur no 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 default aversion assistance must be made within the appropriate time frame, as outlined in this subsection.

## 12.6
## Final Demand Letter

A final demand letter must be mailed to a delinquent borrower and any endorser in accordance with the requirements outlined in Subsections 12.4.A and 12.4.B. 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 nationwide consumer reporting agency. 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(f)]

If it is determined that a borrower was ineligible for his or her loan, separate requirements for the final demand letter apply (see Subsection 12.4.F).

## 12.7
## Address Skip Tracing

Skip tracing is the process by which lenders attempt to obtain corrected address or telephone information for borrowers for whom they receive information indicating that the current address is no longer accurate. Lenders may develop their own skip tracing processes, but must meet specific regulatory time frames and minimum standards. Address skip tracing and telephone number skip tracing are separate processes. See Section 12.8 for information regarding telephone skip tracing.

The lender must satisfy skip tracing requirements 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.
[§682.411(h)]

## 12.7.A
## Timing of Address Skip Tracing Activities

When a lender determines that it does not know the current address of 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 initiate the following activities within the specified time frames:

- Within 10 days of making the determination, the lender must begin attempting to locate the borrower using effective commercial skip tracing techniques.

- If the lender has already begun telephone skip tracing activities for a borrower and makes a determination that it does not have a valid current address, 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(h)]

- 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 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 the lender completes some—but not all—required skip tracing activities 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.

## 12.7.B
## Address Skip Tracing When the Loan Is Not Delinquent

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 12.5.A). If the lender completes a thorough skip tracing effort before a borrower becomes delinquent, it is not required to perform skip tracing again unless it receives a good address and the borrower becomes a "skip" before the final demand letter is mailed. 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.
[§682.208(g)]

## 12.7.C
## Required Address Skip Tracing Activities

A lender's address skip tracing efforts must include, but are not limited to, the following activities:

- Sending a letter to or making a diligent effort (consisting of one successful contact or at least two attempts) to contact by telephone each of the following (see Subsection 12.4.D):
  [§682, Appendix D, Q&A #1; §682.411(h)]

  – Each comaker, endorser, relative, reference, individual, and entity (any prior holders of the loan) identified in the borrower's loan file.

  – The schools in the borrower's loan file. This contact should be with the financial aid administrator or other school official who may reasonably be expected to know the borrower's address.

- Other effective 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 effective 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(h)]

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 240th day of delinquency (the 300th day for loans payable in installments that are less frequent than monthly), it must resume the appropriate due diligence activities (see Subsections 12.4.A and 12.4.B). 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 Section 12.8).
[§682.411(g); §682.411(h)(3)]

## 12.7.D
## Endorser Address Skip Tracing Requirements

If a lender determines that it does not know the current address for the endorser of a delinquent loan, the lender must diligently attempt to locate the endorser through the use of effective 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(n)(3)]

The lender is strongly encouraged to initiate skip tracing activities on the endorser if the endorser's address becomes invalid during any period when the loan is not delinquent.
[DCL 96-L-186/96-G-287, Q&As #59 and #60]

## 12.7.E
## Address Skip Tracing Exceptions

The lender is not required to perform skip tracing activities if either of the following criteria applies:

- The lender determines that the address is invalid after it has mailed a timely final demand letter.

- The borrower's loan becomes 241 days or more delinquent (301 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.
  [§682.411(h)(3)]

If the lender learns that a reference on a loan record 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. 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 different reference identified in the borrower's file, if one is available.

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 Section 12.8).

## 12.8 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 Subsections 12.4.A and 12.4.B)—that the telephone number on file is invalid. If the lender completes all four required diligent efforts to contact the borrower by telephone 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 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.

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 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.

If the lender learns that a reference on the borrower's most recent loan record 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 different reference identified in the borrower's file, if one is available.

If the lender fulfills the requirements described in the preceding paragraphs but does not succeed in obtaining the borrower's telephone number, the lender is not required to continue attempts to call the borrower—unless the lender receives updated telephone information before the 211th day of delinquency. Although telephone calls are not specifically required on or after the 121st day of delinquency, if the lender receives updated telephone information, the lender must continue to ensure that no gap of more than 45 days occurs.
[§682.411(g); §682.411(m)(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 Subsections 12.4.A and 12.4.B).

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 Section 12.7).

The lender must file a default aversion assistance request at the appropriate delinquency level (see Subsection 12.5.A).

## 12.8.A Telephone Skip Tracing Activities

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 telephone number.
- Sending a letter or making a diligent effort (one contact or at least two attempts) to contact by telephone each comaker, endorser, reference, relative, or individual identified on the most recent loan record or school certification for that borrower (see Subsection 12.4.D).
- Contacting, either in writing or by telephone, the school identified on the most recent school certification. This contact should be with the financial aid administrator or other school official who may reasonably be expected to know the borrower's telephone number or address.
  [§682.411(m)(1)(iii); §682, Appendix D, Q&A #1]

## 12.8.B Endorser Telephone Skip Tracing Requirements

If a lender determines that it does not know the current telephone number for the endorser of a delinquent loan, the lender must diligently attempt to locate the endorser through the use of effective 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.
[§682.411(n)(3)]

## 12.9 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.

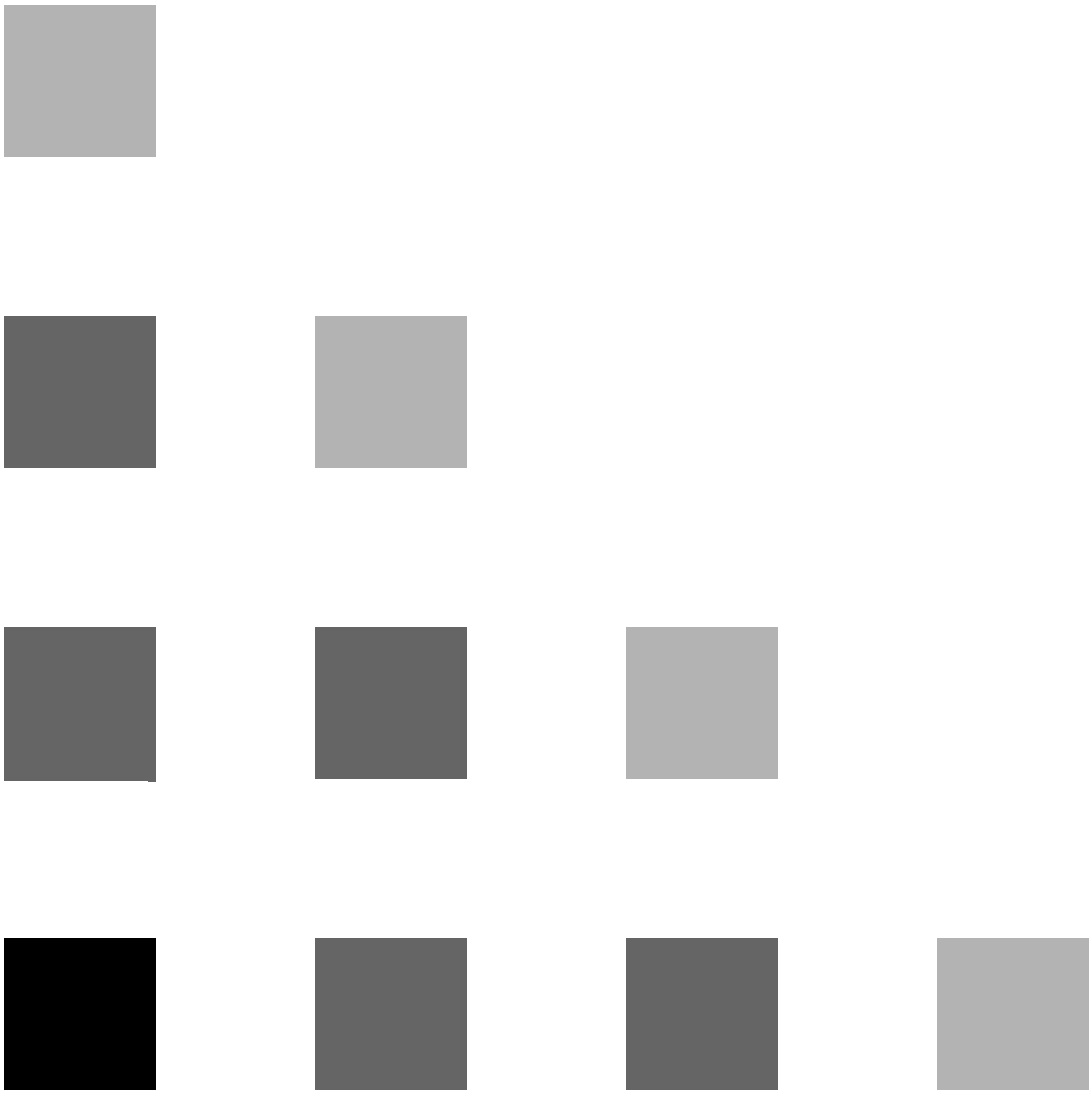
The lender may not capitalize the interest accrued between the date the claim was inadvertently filed and the date it was subsequently returned, unless it obtains written authorization from the borrower. Guarantors recommend that a lender attempt to obtain authorization in the form of a forbearance agreement that enables the lender to capitalize all accrued interest and bring the loan current.

# Tab Locator Page

## Remove this page and replace with tab divider.

# Tab Locator Page

## Remove this page and replace with tab divider.



# 13 Claim Filing, Discharge, and Forgiveness


| | | |
|---|---|---|
| 13.1 | Claim Filing | 1 |
| 13.1.A | Claim Filing Requirements | 1 |
| 13.1.B | Claim File Receipt | 4 |
| 13.1.C | Claim Review Process | 4 |
| 13.1.D | Claim File Documentation | 4 |
| 13.1.E | Missing Claim File Documentation | 6 |
| 13.1.F | Missing Payment History | 7 |
| 13.1.G | Additional Documentation Requested by the Guarantor | 7 |
| 13.2 | Claim Returns | 7 |
| 13.2.A | Refiling the Returned Claim | 8 |
| 13.2.B | Claim Recalls | 8 |
| 13.3 | Claim Purchase or Discharge Payment | 9 |
| 13.3.A | Claim Payment Amount | 9 |
| 13.3.B | Amount of Interest Purchased on Eligible Claims | 10 |
| 13.3.C | Amount of Interest Purchased on Returned Claims | 10 |
| 13.3.D | Amount of Interest Purchased on Cured Loans | 11 |
| 13.3.E | Receipt of Payments after Claim Purchase | 11 |
| 13.4 | Requests for Increase in Claim Payment | 11 |
| 13.5 | Claim Repurchase | 13 |
| 13.6 | Default | 14 |
| 13.6.A | Default Claims | 14 |
| 13.6.B | Ineligible Borrower Claims | 15 |
| 13.7 | Rehabilitation of Defaulted FFELP Loans | 15 |
| 13.8 | Discharge | 17 |
| 13.8.A | Bankruptcy | 20 |
| 13.8.B | Closed School | 22 |
| 13.8.C | Death | 29 |
| 13.8.D | False Certification by the School | 30 |
| 13.8.E | False Certification as a Result of the Crime of Identity Theft | 38 |
| 13.8.F | Spouses and Parents of Victims of September 11, 2001 | 42 |
| 13.8.G | Total and Permanent Disability | 48 |
| 13.8.H | Unpaid Refund | 55 |
| 13.9 | Forgiveness | 59 |
| 13.9.A | Teacher Loan Forgiveness Program | 59 |
| 13.9.B | Loan Forgiveness Program for Service in Areas of National Need | 65 |
| 13.9.C | Civil Legal Assistance Attorney Student Loan Repayment Program | 67 |
| 13.9.D | Loan Forgiveness under the Income-Based Repayment (IBR) Schedule | 69 |

This page intentionally left blank.

Chapter 13 describes the policies governing filing a claim with a guarantor and requesting loan discharge or loan forgiveness. This chapter discusses the policies related to and the documentation required for default claims, as well as for the various loan discharge types—closed school, death of a borrower or a student for whom a PLUS loan was obtained, false certification, total and permanent disability, and unpaid refund. Bankruptcy claim filing procedures are also covered, as well as a description of the procedures for the Teacher Loan Forgiveness Program.

## 13.1 Claim Filing

Lenders must adhere to the following requirements for all claim types. Compliance with these requirements is crucial; failure to comply may result in the cancellation of the loan's guarantee.
[§682.401(b)(19)]

## 13.1.A Claim Filing Requirements

A lender must file each claim according to the policies and deadlines pertaining specifically to the type of claim being filed (for more information on these policies and deadlines, see each specific claim type in Sections 13.6 and 13.8). The lender's claim files must be accurate and must include all documentation specified in Subsection 13.1.D.

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, if applicable, refile the claim by the refile deadline (refer to Subsection 13.2.A).

For claim filing purposes, including loan discharges, all loan records related to a single Consolidation loan promissory note must be filed as one claim package or at the same time with the guarantor based on a single payment due date and amount. Although the subsidized, unsubsidized, and HEAL portions of a single Consolidation loan may appear as separate loan servicing records on the lender's system, the lender must ensure that the Consolidation loan is administered as a single Consolidation loan. A guarantor may return a claim and impose a penalty up to and including the loss of the loan's guarantee if it identifies that the loan has been serviced with different interest rates, except for the underlying portion of a Consolidation loan attributable to a HEAL loan, or payment due dates. The lender may correct the loan, as appropriate, and resubmit the claim. (See Subsection 14.1.E "Violations and Cures Associated with Unsynchronized Servicing of a Consolidation Loan with Multiple Loan Records.")

▲ Lenders may contact individual guarantors for more information on claim filing requirements for Consolidation loans with multiple loan servicing records.

▲ 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.

### Claim Form

The Claim Form 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, interest-paid-through date, lender ID, and, if available, claim review status.

The Claim Form and instructions include three separate claim-filing statuses: exceptional performer status (eliminated on October 1, 2007, per statutory changes from the College Cost Reduction and Access Act of 2007), standard review status, and program review status. The claim-filing status assigned by the guarantor 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.

Only one of the claim review statuses defined as follows may be selected when filing a claim:

- 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 Subsection 13.1.D.

- 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.

▲ 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.

Some guarantors have additional or alternate requirements. These requirements are noted in Appendix C.

*Claim Form Instructions*

Figure 13-1 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.

## Information to Be Provided on the Claim Form — Figure 13-1

| Field Name | Required[1] | If Available[2] |
|---|---|---|
| **CLAIM INFORMATION** | | |
| Claim Type | • | |
| DCO | • | |
| Claim Review Type | • | |
| **BORROWER INFORMATION** | | |
| Social Security # | • | |
| Name (Last, First, MI) | • | |
| AKA | | • |
| Address and Valid? | • | |
| Home #, Work #, Other # | | • |
| Home #, Work #, Other #, and Valid? | • | |
| Employer | | • |
| **LOAN INFORMATION** | | |
| Loan Type | • | |
| Loan ID | • | |
| 1st Disb Dt | • | |
| $ Current Prin Bal | • | |
| $ Unpd Fee/Int | •[4] | |
| Dt Loan Sold | • | |
| Dt Servicer Resp | • | |
| Int Rate/Type/Conv Dt | • | |
| $ Uninsured Interest | • | |
| **ENDORSER/COMAKER/PLUS STUDENT (E/C/S) INFORMATION** | | |
| Loan ID | • | |
| E/C/S Code, ID # | • | |
| E/C/S Name | • | |
| PLUS Student Social Security # | • | |
| Endorser's or Comaker's Social Security # | •[3] | |
| PLUS Student's Address | | • |
| E/C Address | •[3] | |
| E/C/S Address and Valid? | • | |
| PLUS Student's Home # | | • |
| E/C Home # | •[3] | |
| E/C/S Home # and Valid? | • | |
| **CONVERSION TO REPAYMENT INFORMATION** | | |
| OSD | • | |
| Notification Dt | • | |
| Repayment Change? | • | |
| 1st Pmt Due Dt | • | |

| Field Name | Required[1] | If Available[2] |
|---|---|---|
| **REPAYMENT INFORMATION** | | |
| $ Total Borrower Pmts | • | |
| $ DI Refund | • | |
| # Mnths Pmts | • | |
| # Mnths Def/Forb | • | |
| # Mnths Violation | • | |
| # Events | • | |
| # Reconv Mnths | • | |
| Pmt Due Dt | • | |
| **REQUESTED CLAIM AMOUNT** | | |
| Total Amount Disb/Repurchased | • | |
| Capitalized Int | • | |
| Prin Repaid | • | |
| Prin Used For Int Claimed | • | |
| Cure Int Capitalized | • | |
| Prin Claimed | • | |
| Int-Paid-Through Dt | • | |
| Int Claimed As Of | • | |
| Unpaid Cure Int Not Capitalized | • | |
| Other Charges Claimed | • | |
| **LENDER/SERVICER INFORMATION AND CERTIFICATION** | | |
| Lender ID | • | |
| Servicer ID | • | |
| Lender/Servicer Name | • | |
| Lender/Servicer Address | • | |
| Prepared By | • | |
| Preparer's # | • | |
| **COLLECTION HISTORY (THE 270-DAY PERIOD PRIOR TO DEFAULT DATE)** | | |
| Collection History | • | |
| **INCOME BASED REPAYMENT** | | |
| Loan ID | •[5] | |
| Standard-Standard $ | •[5] | |
| Permanent-Standard $ | •[5] | |
| 25-Year Forgiveness Date Begin Dt | •[5] | |
| # Qualifying Forgiveness Mnths | •[5] | |
| IBR Start Dt | •[5] | |
| # Days HRD Def | •[5] | |

[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 must provide on the Claim Form for loans first disbursed on or after September 1, 1998. For loans first disbursed prior to September 1, 1998, if the lender has the information, it must be provided on the Claim Form.

[4] Refers to information that the lender is required to provide on the Claim Form for claims filed for loans first disbursed on or after September 1, 2004.

[5] Refers to information that the lender is not required to provide for BC, BH, or DI claims for which no first payment due date has been established; for parent PLUS loans or Consolidation loans that include a parent PLUS loan; or for claim types CS, DE, FC, ID, or IN.

## 13.1.B
## 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.

## 13.1.C
## 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.

## 13.1.D
## 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.).

▲ Lenders assigned a *Program Review Status* should contact the guarantor for additional claim documentation information. See Section 1.5 for contact information.

### General Documentation Requirements

*Bankruptcy, Death, Default, and Total and Permanent Disability 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:

1. *Claim Form*

   Lenders must use the Claim Form (see Subsection 13.1.A) 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 270-day delinquency period. See Section 1.5 for contact information.

2. *Application and Promissory Note*

   The lender must submit the application, if a separate loan application was provided to the lender. The lender also must submit the original promissory note, or a true and exact copy of the promissory note, with any signed promissory note addenda. If the guarantor retains the application or promissory note on the lender's behalf, the lender is expected to submit only the imaged copy of the document that it receives from the guarantor or a facsimile of the document.

   In some cases, an indemnification agreement will be accepted if a lender is unable to provide required documentation for claim filing. If the Master Promissory Note (MPN) is signed by a third party with power of attorney (POA) for the borrower, the lender must also submit a copy of the applicable POA document.

   ▲ 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.

3. *Assignment of a Loan*

   The claim file must contain the holder's original assignment of a loan to the guarantor. A lender using the Claim Form, which contains the assignment language, need not provide additional information or certifications when filing a claim in order to assign the loan. A lender using an electronic claim filing process should work directly with the guarantor to develop an accurate, timely assignment process that corresponds with the claim filed.

   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. *Cure Documentation*

   If the loan's guarantee is lost and subsequently reinstated, the lender must include in any claim filed subsequent to the reinstatement the curing instrument or a legible copy of the curing instrument. Examples of a curing instrument include a new repayment agreement signed by the borrower or a copy of a payment. In the case of an intensive collection activities (ICA)/location cure, the claim file must include acceptable evidence that the borrower has been located as detailed in Section 14.6. For additional information regarding acceptable documentation to show that an ICA/location cure has been completed, see Section 14.6.

6. *Reduced Interest Rate Documentation*

   Documentation supporting the granting of a reduced interest rate under the Servicemembers Civil Relief Act if, at the time the lender files a claim with the guarantor, the borrower, comaker, or endorser is receiving this benefit. This documentation must include the borrower's written request for the reduced interest rate and the applicable military orders.

7. *Bankruptcy Documentation*

   If the lender filed any required document with the bankruptcy court, either manually or in an electronic format, it must include a printed copy of that document in any claim that it submits.

### Additional Documentation Requirements

*Closed School Claims, False Certification Claims, and Unpaid Refund Discharges*

Documentation requirements for closed school and false certification claims are outlined in Subsections 13.8.B, 13.8.D, and 13.8.E. Documentation requirements for unpaid refund discharges are outlined in Subsection 13.8.H.

For a false certification claim as a result of the crime of identity theft, the lender must also submit a completed FFELP Ineligible Borrower and Identity Theft Supplemental Form along with applicable documentation.

*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. Further, the lender is required to submit a completed FFELP Ineligible Borrower and Identity Theft Supplemental Form along with applicable documentation.

*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 proof of filing directly received from the borrower's attorney, the bankruptcy court, or from another source; a copy of the Proof of Claim filed by the lender, if required; and all other pertinent documents sent to or received from the bankruptcy court. If the lender filed any required document with the bankruptcy court in an electronic format, it must include a printed copy of that document in any claim that it files.
[§682.402(f)(3); §682.402(g)(1)(v)(A)]

*Death Claims*

For a death claim, the lender must submit—in addition to the preceding items *1* through *5*—an original or certified copy, or an accurate and complete photocopy of the original or certified copy, of the death certificate (see Subsection 13.8.C). The use of a fax or electronic version of the death certificate is not permitted. In the event of an exceptional circumstance and on a case-by-case basis, the lender must submit other reliable documentation approved by the guarantor's CEO.
[§682.402(b)(2);§682.402(g)(1)(iii); §685.212(a)(1)]

*Total and Permanent Disability Claims – Regular*

For a total and permanent disability claim, the lender must submit the preceding items *1* through *5,* and each of the following:

- A completed Discharge Application: Total and Permanent Disability or other form(s) approved by the Department.
- A record of any payments received after the date the physician completed and certified the discharge application.
- A FFELP Assignment Support Supplemental Form (TPD-Specific worksheet) when filing a total and permanent disability claim that is not based on a determination by the Department of Veterans Affairs (VA). This form requires the lender to provide certain electronic signature and disbursement information. [§682.402(g)(1)(iv); the Department's Mandatory Assignment Guidance dated July 2, 2009]

*Total and Permanent Disability Claims – VA*

For a total and permanent disability claim, the lender must submit—in addition to the preceding items *1* through *5*—a Discharge Application: Total and Permanent Disability with Sections 1 and 3 completed by the borrower along with the documentation from the U.S. Department of Veterans Affairs (VA) showing that the VA has determined the borrower to be unemployable due to a service-connected condition.
[§682.402(c)(8); §685.213(c)(1); DCL GEN-09-07/FP-09-05]

Some guarantors have additional or alternate requirements. These requirements are noted in Appendix C.

## 13.1.E
## 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, promissory note, promissory note assignment, specialty claim documentation, payment history information, deferment or forbearance documentation, and missing collection history. In the case of documentation where an original or true and exact copy, or an accurate and complete photocopy of the original or certified copy, may be required (such as the promissory note and death certificate), 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, or an accurate and complete photocopy of the original or certified copy—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 Section 14.5).

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.

## 13.1.F
## 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. For more information on this violation and how it may be cured, see Subsections 14.1.C and 14.5.C, respectively.

## 13.1.G
## Additional Documentation Requested by the Guarantor

There are several reasons why a guarantor may require a lender to provide additional information or documentation, such as:

- The guarantor requests additional information due to the subrogation of the loan.
- The borrower disputes the default determination, the loan amount, or other lender account information. [§682.414(c)(2)]
- The school disputes its cohort default rate.

For a loan that is subrogated to the Department or upon the request of the guarantor, the lender must provide the following within the guarantor's required time frame:

- A record of the lender's disbursement of Stafford and/or PLUS loan proceeds to the school for delivery to the borrower.
- If the promissory note was signed electronically, the name and location of the entity in possession of the original electronically signed promissory note. [§682.409(c)(4)(vii) and (viii)]
- Any document in the lender's records that the guarantor or the Department determines necessary to verify the accuracy of the information provided by the lender in the claim request, to verify the right of the lender to receive or retain claim payments, to investigate a borrower's dispute, or to enforce any right acquired by the guarantor or the Department. [§682.414(c)(2)]

▲ Lenders may contact individual guarantors or see Appendix C for more information on when the additional documentation is required.

## 13.2
## 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. Most claim returns 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 the claim.
- The borrower is actually eligible for a loan when a lender incorrectly determines that he or she is ineligible, or if ineligible, is not ineligible *solely* due to his or her own error (e.g., when a lender receives retroactive information that a student never enrolled although the student actually attended classes).

The guarantor is required to return the claim or discharge request to the lender within a specific number of days after receiving the claim or discharge request, as follows:

- 90 days for a default, total and permanent disability – regular, or closed school claim.
- 45 days for a total and permanent disability – VA claim.
  - The guarantor must, within 45 days after receiving a total and permanent disability – VA claim from the lender, determine if the documentation is complete.
- 45 days for a bankruptcy claim, a death claim, or an unpaid refund discharge.
- 120 days for a false certification claim (90 days to determine the loan's eligibility for discharge, and another 30 days to authorize payment of the claim or return it to the lender). [§682.402(d)(6)(ii)(G)(2); §682.402(e)(6)(iv) and (e)(7); §682.402(h)(1)(i); §682.402(h)(1)(v)(A); §682.406(a)(8)]

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 Section 12.9).

## 13.2.A Refiling the Returned Claim

A lender may refile 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. The lender's refiling of a claim is subject to the following requirements, as applicable:

- A bankruptcy claim must be refiled within 30 days after the lender's receipt of the returned claim. Failure to refile 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 refiled within 60 days after the lender's receipt of the returned claim. However, claims refiled on the 31st through the 60th day inclusive are subject to certain restrictions, as outlined in Section 14.4.
  [§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 Section 14.4.

## 13.2.B 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. If a lender chooses to recall a claim but the guarantor is unable to stop the claim payment, the lender may recall the claim by remitting an amount equal to the claim payment to the guarantor within 30 days of receiving the claim payment.

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 210 or fewer days delinquent by the lender's receipt of a payment or by the lender's approval of a verbal or written forbearance agreement. In the case of a discretionary forbearance, the lender must also obtain a signed agreement to repay the debt which, at the lender's discretion, may be included in the context of a written forbearance agreement or may be separate. The discretionary forbearance should bring the account current (see Section 11.20).

- 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 or that the bankruptcy case has been dismissed.

Regardless of whether the lender is required to recall the claim or the lender chooses to recall the claim, if a claim is later filed, the lender must provide a complete history from the out-of-school date reported on the Claim Form. (Refer to Subsection 13.1.D for documentation requirements.)

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 delinquent and the time frame within which the servicing is restarted does not require due diligence (on or after the 241st 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.

*Note: The definition of recall (of a claim) is when a lender requests that the guarantor return a claim before the guarantor pays the claim, or the lender remits to the guarantor an amount equal to the claim payment within 30 days of the date on which the lender receives the claim payment.*

## 13.3 Claim Purchase or Discharge Payment

The guarantor is required to purchase an approved claim or a Department-approved total and permanent disability – VA discharge request, or return the claim or Department-denied total and permanent disability – VA discharge request to the lender within a specific number of days after receiving the claim or the Department's determination on a total and permanent – VA discharge request, as follows:

- 90 days for a default, total and permanent disability – regular, or closed school claim.

- 45 days for a total and permanent disability – VA claim.

  - The guarantor must, within 45 days after receiving a total and permanent disability – VA claim from the lender, either forward the request to the Department for a final eligibility determination, or return the claim to the lender if the documentation does not establish the discharge eligibility. If the Department approves the discharge, the guarantor must pay the claim to the lender within 45 days after receiving the Department's approval notification. If the Department denies the discharge, the guarantor must return the claim to the lender within 45 days after receiving the Department's denial notification.

- 45 days for a bankruptcy claim, a death claim, or a closed school unpaid refund discharge.

- 30 days from the approval date of the false certification loan discharge application, from the date of the guarantor's independent determination that the borrower is eligible for a false certification loan discharge, or from the guarantor's receipt of notification from the Department that the borrower is eligible for a false certification loan discharge. (A guarantor may take up to 90 days to determine the borrower's eligibility for discharge.)

- 45 days from the date the eligibility determination is made for an open school unpaid refund discharge. (A guarantor may take up to 120 days to resolve the unpaid refund with the school. See Subsection 13.8.H.)

If the lender fails to provide complete documentation, or if the lender has committed one or more violations that warrant cancellation of the loan's guarantee (for any claim except a closed school or false certification discharge claim), the claim will be returned to the lender unpaid within the applicable time frame noted above. Closed school and false certification discharge claims are not subject to review for servicing violations. [§682.402(d)(6)(ii)(G)(1); §682.402(e)(6)(iv) and (e)(7)(ii); §682.402(h)(1)(i); §682.402(h)(1)(v)(B); §682.402(l)(2)(ii); §682.402(n)(1); §682.406(a)(8)]

## 13.3.A Claim Payment Amount

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, a claim will be paid as follows:

- The guarantor will use the principal claimed amount provided by the lender on 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 13.8.G, 13.8.B, and 13.8.D 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 outstanding principal and eligible interest for each of the following types of claims:

  - A default claim filed on a loan that was first disbursed or consolidated on or after October 1, 1993, but before July 1, 2006. [§682.401(b)(14)(ii)]

  - An ineligible borrower claim filed on a loan that was first disbursed on or after October 1, 1993, but before July 1, 2006. [HEA §428(b)(1)(G)]

- The guarantor will pay 97% of outstanding principal and eligible interest for a default claim filed on a loan first disbursed on or after July 1, 2006, or consolidated on or after that date.
  [HEA §428(b)(1)(G)(ii); §682.401(b)(14)(iii)]

- 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.
    [§682.401(b)(14)(i)]

  – A non-default claim, such as a death, disability, bankruptcy, false certification, or closed school claim.
    [§682.402(h)(2)]

  – An ineligible borrower claim on a loan that was first disbursed on or after July 1, 2006.
    [HEA §428(b)(1)(G)(iii); §682.412(e)(2)]

  – A claim on a loan made under Lender of Last Resort (LLR) provisions.
    [HEA §428(b)(1)(G)(i); §682.404(a)(1)(iii)(B)]

## 13.3.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 the applicable percentage of the outstanding eligible interest owed from the interest-paid-through date through the date the guarantor pays the claim. The percentage of the outstanding eligible interest owed that the guarantor will pay is based on the requirements set forth in Subsection 13.3.A.

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 the applicable percentage of outstanding eligible interest for which the lender is eligible. (See Subsection 13.3.A for information regarding applicable insurance rates.)

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 Section 14.3.

▲ 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.

## 13.3.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 13.2.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, and before July 1, 2006, or consolidated during that time. For loans first disbursed on or after July 1, 2006, the guarantor will pay 97% of eligible interest. Regardless of the loan's first disbursement date, if the loan was made under Lender of Last Resort provisions, the guarantor will pay 100% of eligible interest.
[HEA §428(b)(1)(G)(ii); §682.404(a)(1)(ii) and (iii)]

If a death, a disability, a closed school, a false certification, a bankruptcy, or an ineligible borrower 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 Section 14.3) 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 Section 14.4.

- 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 Section 14.4.

- 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]

## 13.3.D
## Amount of Interest Purchased on Cured Loans

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 lender completed the intensive collection activities (ICA)/location cure (see Section 14.6) and did not receive a full payment or new repayment agreement signed by the borrower, the guarantee is not reinstated and interest will be purchased only from the interest-paid-through date (IPT date) through the earliest unexcused violation date. The guarantor will honor reinsurance claims on the outstanding principal balance of those loans along with unpaid interest minus any applicable interest penalties.
[§682, Appendix D, I.B.7.]

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, I.A. and B.7.]

## 13.3.E
## Receipt of Payments after Claim Purchase

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.

## 13.4
## 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 13.3.B).

- Ensuring that the amount of the claim reduction is not due to the loan's eligibility for 97% or 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.

### Supplemental Claim Form

The Supplemental Claim Form 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*

Figure 13-2 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 on the Supplemental Claim Form — Figure 13-2

| Item Description | Required[1] | If Available[2] |
|---|---|---|
| Borrower's Social Security number (SSN). | • | |
| Borrower's last name, first name, and middle initial. | • | |
| Loan type for each loan listed (i.e., SF = subsidized Stafford, including nonsubsidized disbursed prior to 10/92; SU = unsubsidized Stafford; PL = Parent PLUS; GB = Grad PLUS; SL = SLS; CL = Consolidation). | • | |
| Loan ID for each loan listed (e.g., the loan identifier code, file number, guarantee date, or amount, as indicated by the guarantor). | • | |
| Interest rate and interest rate type for each loan listed. | • | |
| 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. | • | |
| 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] | |
| Current servicer's name and address. | • | |
| Preparer's name and telephone number. | • | |

[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.

# 13.5 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 begins prior to the date of default.
- The loan is found to be legally unenforceable.
- Other reasons as determined by the guarantor.

Any 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. [§682.402(j)]

If the guarantor purchases a default claim and later receives documentation that the date of the bankruptcy petition preceded the date of default (the 270th day of delinquency for most claims), the lender will be required to repurchase the loan unless the loan is determined by the court to be dischargeable in the bankruptcy action. The repurchase requirement does not apply in the case of a loan that is filed as a default claim and the date of default precedes the petition date.

If a claim is paid by the guarantor and the loan is later ruled by a court to be unenforceable against the borrower solely due to the lack of evidence of a Confirmation or Notification process or processes, the lender must repurchase the claim from the guarantor and refund to the Department any interest benefits and special allowance payments collected by the lender on the loan. [§682.406(c)]

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 outstanding interest according to provisions in Section 10.10 and Subsection 11.21.P.

If a lender chooses to recall a claim but the guarantor is unable to stop the claim payment, the lender may recall the claim by remitting an amount equal to the claim payment to the guarantor within 30 days of receiving the claim payment. If a claim is later filed, the lender must provide a complete history from the out-of-school date reported on the Claim Form. (Refer to Subsection 13.1.D for documentation requirements.)

### 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.

#### Conversion to Repayment

A lender that repurchases a loan must immediately establish a repayment schedule with the borrower that meets the requirements applicable to other FFELP loans of the same type (see Subsection 10.5.D). The schedule must be sent to the borrower no more than 60 days and the first payment due date must be no more than 75 days after the lender considers the repurchase to be complete (e.g., the date the repurchase check is sent to the guarantor, the date the lender receives the loan file from the guarantor, or the date the lender receives collateral from the guarantor). [§682.209(a)(3)(ii)(D)]

## 13.6 Default

FFELP agreements between lenders and guarantors establish that the guarantor will reimburse the lender for all or part of the loan balance for a loan on which a borrower defaults.

## 13.6.A Default Claims

In order to collect insurance on a defaulted loan, the lender must file a timely and accurate default claim with the guarantor.

#### 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 Subsection 13.2.B). 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 have additional or alternate requirements. 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 received before claim payment.

#### Interest-Only Claims

Lenders may 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 delinquent interest-only payments—except when those payments are the result of an income-sensitive repayment schedule or a reduced-payment forbearance. For more information regarding collection activities on reduced-payment forbearance payments, see Section 12.4.
[§682.202(b); DCL 90-G-175]

#### Forwarding Documentation of Other Claim Types

If, after filing a default claim, the lender receives documentation that the loan(s) qualifies for a different type of claim payment, the lender must forward the applicable documentation to the guarantor within 30 days of receipt. The lender must forward any acceptable notification (including all supporting documentation) that demonstrates that one of the following situations has occurred:

- The borrower has died or the student for whom a parent PLUS loan was obtained has died.
- The borrower has become totally and permanently disabled.
- The borrower has filed any type of bankruptcy.
- The borrower has been determined to be ineligible for the loan.
- The borrower is entitled to loan discharge or partial discharge due to:
  - School closure.
  - An unpaid refund.
  - False certification by the school.
  - False certification as a result of the crime of identity theft.
  - The borrower qualifies as an eligible spouse or parent of a victim of the September 11, 2001, terrorist attacks.

The guarantor may alter the original claim type to reflect the new status or may return the claim for additional information, 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 13.8.A.

If a lender receives information indicating an unpaid refund, or information that the borrower may qualify as an eligible spouse or parent of a victim of the September 11, 2001, terrorist attacks, the lender should follow the additional instructions outlined in Subsections 13.8.F and 13.8.H.

#### Filing Time Frames for Default Claims

A lender is strongly encouraged to file a default claim on or after the 300th day of delinquency and may not file a default claim before the 271st day of delinquency for loans with monthly installments. For a loan with installments due less frequently than monthly (e.g., quarterly), a lender is strongly encouraged to file a default claim on or after the 360th day of delinquency and may not file a default claim before the 331st day of delinquency.

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 360th 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 420th day of delinquency. Failure to submit a default claim by the 360th day, or 420th 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 14.5.D). 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 330th day of delinquency.

## 13.6.B
## Ineligible Borrower Claims

A loan for which the borrower is ineligible due to the borrower's or student's error (see Subsection 5.17.A) 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.
[§682.412(e); §685.211(e)(3)]

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.
[§682.412(e)(2)]

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(e)(1)]

For information on claim documentation, see Subsection 13.1.D.

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.

## 13.7
## Rehabilitation of Defaulted FFELP Loans

To be eligible to rehabilitate a defaulted FFELP loan, a borrower must enter into a rehabilitation agreement 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. A borrower may not include in a rehabilitation agreement a loan on which a judgment has been obtained or a loan on which the borrower has been convicted of, or has pled *nolo contendere* or guilty to, a crime involving fraud in obtaining Title IV funds. A loan may be rehabilitated only once. Any loan included in a rehabilitation agreement on or after August 14, 2008, may not be included in a future rehabilitation agreement. A borrower may include in a rehabilitation agreement another defaulted loan that has not previously been rehabilitated on or after August 14, 2008.

A defaulted Consolidation loan that includes a loan previously rehabilitated on or after August 14, 2008, is eligible for rehabilitation.
[HEA §428F(a)(5); §682.405(a)(1); §685.211(f); *Federal Register* dated October 29, 2009, p. 55979; DCL GEN-08-12/FP-08-10]

▲ Contact the guarantor for information about its rehabilitation program. See Section 1.5 for contact information.

To rehabilitate a FFELP loan, a borrower must make nine, on-time (i.e., received within 20 days of the due date), full monthly payments to the guarantor or its contracted vendor during a period of 10 consecutive months. 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 state offsets or federal Treasury offsets, wage garnishment, trustee payments, or income or asset execution will not satisfy requirements for rehabilitation.
[HEA §428F(a)(1)(A); §682.405(a)(2); §685.211(f)(1)]

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

The nine payments must be received during the 10-month period immediately preceding the rehabilitation of the defaulted loan. Payments will be considered voluntary if made directly by the borrower. A lump sum prepayment of future installments cannot be used to satisfy the requirement that the borrower make nine payments during a period of 10 consecutive months. If the borrower fails to send nine payments on time during the 10-month period in which payments are required for rehabilitation, he or she must begin the entire cycle again. A new 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.
[§682.405(b)]

A guarantor will assist a borrower in securing the purchase of each defaulted loan by an eligible lender only after:

- The borrower satisfies his or her obligation to make nine payments during a period of 10 consecutive months, as prescribed above.
- The borrower authorizes the guarantor to capitalize collection costs.
- The borrower requests assistance in obtaining a rehabilitation repurchase.
- 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.

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.
[§682.405(b)(1)(iii)]

Within 30 days of receiving notification of the rehabilitation from the guarantor, the prior holder of the loan must request that any nationwide consumer reporting agency to which the default status or other equivalent record was reported, remove the default status or other equivalent record from the borrower's credit history.
[HEA §428F(a)(1)(A); §682.405(a); §682.405(b)(3)(ii); §685.211(f)(1); DCL GEN-08-12/FP-08-10]

▲ Contact the guarantor for information about its process for lender notification of a rehabilitated loan. See Section 1.5 for contact information.

A lender that purchases a rehabilitated loan must immediately establish a repayment period with the borrower that meets the requirements applicable to other FFELP loans of the same type as the rehabilitated loan, and must allow the borrower to choose any repayment schedule that is available for that loan type. The lender must permit the borrower to choose any repayment schedule available, including the income-based repayment (IBR) plan. The schedule must be sent to the borrower no more than 60 days, and the first payment due date must be no more than 75 days after the lender considers the repurchase to be complete (e.g., the date the repurchase check is sent to the guarantor, the date the lender receives the loan file from the guarantor, or the date the lender receives collateral from the guarantor).
[§682.405(b)(4)]

Except for under IBR, the lender must consider the first payment made under the nine monthly payments required for rehabilitation as the first payment under the applicable maximum repayment period for the loan type. For example, a Stafford loan borrower with a 10-year maximum repayment period would have 9 years and 3 months remaining, because the nine monthly payments are considered the first 9 months of the repayment period. For another example, a Consolidation loan borrower with a balance greater than $60,000 and a 30-year maximum repayment period would have 29 years and 3 months remaining, because the nine monthly payments are considered the first 9 months of the repayment period. Under IBR, the nine monthly payments under a rehabilitation plan are considered payments on a defaulted loan and, therefore, are not qualifying payments toward the 25-year IBR forgiveness period. If a borrower was repaying under IBR before default and if the borrower qualifies for partial financial hardship (PFH) after rehabilitation, the rehabilitated loan may return to IBR and would resume the 25-year period; i.e. only pre-default payments plus the payments made after rehabilitation are considered qualifying payments toward IBR forgiveness.
[§682.405(b)(4); §682.215(f)(5)]

When establishing the maximum repayment period on a rehabilitated Consolidation loan, the lender must use the loan's balance at the time the loan is rehabilitated (i.e., the amount paid to the guarantor to purchase the loan).
[§682.405(b)(4)]

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]

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.

## 13.8 Discharge

A loan discharge is a release of a borrower's or any comaker's obligation to repay his or her loan, either in whole or in part. There are several circumstances under which a borrower's or comaker's loan may be discharged. Each of these circumstances and its corresponding borrower eligibility criteria are outlined in this section. In certain circumstances, a lender that discharges all or a portion of an eligible borrower's loan may be reimbursed by the guarantor by filing a claim. For information about claim filing procedures, see Section 13.1.

### Partial Discharge of a Consolidation Loan

The lender of a Consolidation loan must submit to the guarantor of the Consolidation loan a request for partial discharge of the Consolidation loan for the portion that represents any underlying loans that are eligible for discharge due to disability (only for comade Consolidation loans), closed school, death, false certification, unpaid refund, or another discharge type. Upon approval of the discharge, the guarantor will process a payment for the discharged principal and interest portion of the Consolidation loan and forward the payment to the Consolidation loan lender.

▲ Lenders may contact the guarantor of the Consolidation loan for information on how to file the request for partial discharge.

### Request for Reimbursement Due to Partial Discharge of a Federal Consolidation Loan Form

The Request for Reimbursement Due to Partial Discharge of a Federal Consolidation Loan form is designed to be used by a lender to request a partial discharge of the Consolidation loan for the portion that represents any underlying loans that are eligible for discharge due to disability (only for comade Consolidation loans), closed school, death, or false certification discharge.

*Request for Reimbursement Due to Partial Discharge of a Federal Consolidation Loan Form Instructions*

Figure 13-3 will help lenders determine what information must be provided on the Request for Reimbursement Due to Partial Discharge of a Federal Consolidation Loan form. Detailed descriptions of these items are located in the Instructions for Reimbursement Due to Partial Discharge of a Federal Consolidation Loan form.

### Comakers and Endorsers

If a PLUS loan was obtained by two parents as comakers (as applicable to a PLUS loan made prior to April 16, 1999), or a Consolidation loan was obtained by two spouses as comakers (as applicable to a Consolidation loan made from an application received by the consolidating lender prior to July 1, 2006), and one of the borrowers is eligible for discharge, one or both comakers remain 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—the loan holder may grant a discharge on the loan.
[§682.402(a)(2) and (3); §685.212(a); §685.220(l)(3)]

If a comaker on a joint Consolidation loan is determined to be totally and permanently disabled, the disabled comaker's underlying loans are discharged but the disabled comaker and the non-disabled comaker both remain jointly and severally liable for the repayment of the balance of the loan. For a comade PLUS loan, if one comaker is determined to be totally and permanently disabled, that comaker's obligation on the loan is discharged and the non-disabled comaker assumes responsibility for repayment of the entire loan balance.

If the lender has begun collection activities with respect to the endorser's obligation on a PLUS loan, and if the endorser is determined to be totally and permanently disabled, the endorser's obligation on the loan is discharged and the primary borrower assumes sole responsibility for repayment of the entire loan balance.

### Reporting to Nationwide Consumer Reporting Agencies

As required under Subsection 3.5.C, the lender must report to all nationwide consumer reporting agencies the date a borrower's loan is discharged due to the disability, bankruptcy, or death of the borrower or dependent student, as applicable. For closed school and false certification discharges, the current loan holder must, within 30 days of the date the lender is notified that a loan is discharged, notify all nationwide consumer 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.
[HEA §430A(a); §682.208(b)(1)(iv); §682.402(d) and (e); §685.214(b)(4); §685.215(b)(5); §685.216(b)(2)]

Some guarantors have additional or alternate discharge documentation requirements. These requirements are noted in Appendix C.

## Information to Be Provided on the Request for Reimbursement Due to Partial Discharge of a Federal Consolidation Loan Form — Figure 13-3

| Item Description | Required[1] |
|---|---|
| Reason type. | • |
| Date condition occurred (DCO). | • |
| Borrower name. | • |
| Borrower Social Security number (SSN). | • |
| Comaker name. | • |
| Comaker Social Security number (SSN). | • |
| Dependent student name. | • |
| Dependent student Social Security number (SSN). | • |
| Loan ID. | • |
| First disbursement date for Consolidation loan. | • |
| Principal amount outstanding for the Consolidation loan based on date of death or disability, or for closed school or false certification, based on date of disbursement of the Consolidation loan. Also, include the sum of the outstanding principal amounts provided. | • |
| Interest rate and interest rate type for Consolidation loan. | • |
| Proration rate. | • |
| Loan type for each underlying loan to be discharged. | • |
| First disbursement date for each underlying loan to be discharged. | • |
| Amount requested. | • |
| Interest-paid-through date. | • |
| Interest claimed as of (date and amount). | • |
| Total amount requested. | • |
| Eligible payments. | • |
| Reimbursement amount requested. | • |
| 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. | • |
| Lender/servicer name/address. | • |
| Preparer's name and telephone number. | • |

[1] Refers to information the lender must provide on the Request for Reimbursement Due to Partial Discharge of a Federal Consolidation Loan form.

# 13.8.A Bankruptcy

The bankruptcy discharge is intended for certain borrowers who have filed a petition for relief under the bankruptcy code. Bankruptcy is a judicial action to halt the normal collection of debts against the petitioner, and cause those debts to be satisfied at the direction of the court. Generally, student loans may not be discharged due to bankruptcy. However, if a borrower qualifies for the bankruptcy discharge, the loan holder is reimbursed for the unpaid principal and interest on the borrower's loan(s), but the borrower is not reimbursed for any payments made on the loan(s) prior to discharge.

A lender may be advised of a borrower's bankruptcy by the borrower, but 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 proof of filing from the borrower's attorney or the bankruptcy court (either directly from the court or from another source).
[§682.402(f)(3); §682.402(g)(1)(v)]

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 360th 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 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 subsection. 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 a lender holds loans that are not yet disbursed or are partially disbursed at the time the lender is notified of the borrower's bankruptcy filing, see Subsection 7.7.I for processing information related to subsequent disbursements.) 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.

### Suspending Collection

If the lender is notified that a borrower has filed a petition for relief in bankruptcy, the lender must immediately suspend any collection efforts against the borrower that are outside the bankruptcy proceeding. If the borrower filed a Chapter 12 or 13 bankruptcy, the lender must also suspend any collection efforts against any comaker or endorser. Suspension of collection efforts against any comaker or endorser is optional if the borrower filed a Chapter 7 or 11 bankruptcy.
[§682.402(f)(2)(i)]

If the lender is notified that a comaker or endorser has filed a petition for relief in bankruptcy, the lender must immediately suspend any collection efforts against the comaker or endorser that are outside the bankruptcy proceeding. If the comaker or endorser filed a Chapter 12 or 13 bankruptcy, the lender must also suspend any collection efforts against the borrower and any other parties to the note. Suspension of collection activities against the borrower and any other parties to the note is optional if the comaker or endorser filed a Chapter 7 or 11 bankruptcy.
[§682.402(f)(2)(ii)]

### 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 all other pertinent documents sent to or received from the bankruptcy court to the guarantor. If the lender filed any required document with the bankruptcy court in an electronic format, it must include a printed copy of that document in any claim that it files. Upon claim payment, the guarantor will file a Transfer of Claim Other Than For Security form with the court to complete the transfer of the proof of claim. Once the court processes the transfer, the Notice of Transfer of Claim Other Than For Security form will be sent to the lender/servicer acknowledging the transfer of the proof of claim.
[§682.402(f)(4); §682.402(g)(1)(v)(A)]

▲ Lenders may contact individual guarantors for information on filing a proof of claim on behalf of the guarantor. Also, 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 any one of the following conditions exist:

- A borrower files a Chapter 12 or 13 bankruptcy.
- A Chapter 7 or 11 bankruptcy is converted to 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); P.L. 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.
[§682.402(a)(3)]

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 all other pertinent documents sent to or received from the bankruptcy court in the claim file. Upon claim payment, the guarantor must file a Transfer of Claim Other Than For Security form with the court to complete the transfer of the proof of claim. Once the court processes the transfer, the Notice of Transfer of Claim Other Than For Security form will be sent to the lender/servicer acknowledging the transfer of the proof of claim.

#### 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 no later than 60 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 any other 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 place the loan into the applicable status.
[DCL 96-L-186/96-G-287 Q&A #67]

#### 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.

A bankruptcy claim and proof of claim, if applicable, must be filed with all required documents within 30 days after the lender's receipt of the Notice of the First Meeting of Creditors or other confirmation issued by the debtor's attorney or the bankruptcy court or within 30 days after the date the guarantor provides the lender with bankruptcy information and instructs the lender to file a bankruptcy claim, whichever is earlier. For more information on

documentation to be filed with a bankruptcy claim, see Subsection 13.1.D.
[§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 270 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 360th 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.

#### 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 the borrower has filed a successful 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. The loan may not necessarily be sold to the lender that filed the bankruptcy claim.
[§682.402(j)(1)]

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 13.5.
[§682.402(j)(2)]

## 13.8.B Closed School

If a borrower (or a student for whom a parent obtained a PLUS loan) is unable to complete his or her program of study due to the closing of a school, the borrower may qualify to have his or her applicable loans discharged. A borrower is eligible for loan discharge of all or part of his or her Consolidation loan for the amount of the closed school loan discharge that would have been applicable to the borrower's underlying loan(s). 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.

In most cases, to qualify for a closed school loan discharge, a borrower must complete, certify, and submit to his or her lender or guarantor the Loan Discharge Application: School Closure form approved by the Department. The borrower may be eligible to have a loan discharged if he or she meets all the following criteria:

- The borrower (or student for whom a parent obtained a PLUS loan) received any part of the proceeds of a FFELP loan on or after January 1, 1986, 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, by transferring to another school all or a portion of the academic credits or clock hours earned at the closed school, or by benefiting by any other means from the training provided by the closed school.

Additionally, lenders must note the following regarding loans eligible for closed school loan discharge:

- 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 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.

If a loan discharge is approved, the discharge cancels the obligation of the borrower to repay the outstanding principal, accrued interest, collection costs, and late fees on all eligible loans made for the student's enrollment in the program of study being pursued when the school closed. It also qualifies the borrower for reimbursement of any amount paid voluntarily or through forced collection on the amount discharged.
[HEA §437(c); §682.402(d)(2); §685.212(d); §685.214(b)(1)]

The guarantor or the Department may initiate the discharge process if either determines that the borrower is eligible for discharge based on information in its possession. If, however, the borrower initiates the process by requesting a discharge based on a school closure, the borrower must complete, certify, and submit to the lender or guarantor the Loan Discharge Application: School Closure form. Through submission of this loan discharge application, the borrower:

- Agrees to provide, as requested, other reasonably available true and correct 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 closing with any third party, such as the holder of a performance bond or tuition recovery program. If so, the borrower must disclose in the discharge application the amount of any payment received by the borrower (or student) or credited to the loan obligation.

In some cases, the guarantor will send a loan discharge application to the lender. The lender will then forward the discharge application to the borrower according to the requirements outlined in this subsection. In other cases, a guarantor may send the loan discharge application 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 application 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.

In some cases, a borrower may qualify for a closed school loan discharge without submitting a loan discharge application if the borrower received a closed school loan discharge on a loan under the Federal Perkins Loan Program or the Federal Direct Loan Program for the same program of study at the same school. Also, the borrower may not be required to submit a loan discharge application if the Department or the guarantor, with the Department's permission, determines that the borrower qualifies for a discharge based on information in the Department's or guarantor's possession.
[§682.402(d)(8)]

### Identifying Potentially Eligible Borrowers

In some cases, a borrower's potential eligibility is 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 a closed school loan discharge. 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.

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 loan discharge applications for each identified borrower to the lender or advise the lender that the loan discharge applications have been mailed directly to the borrowers (if the guarantor provides this service to its lenders). Otherwise, the lender is responsible for mailing a loan discharge application to each affected borrower within 60 days of receiving the guarantor's notification, according to the requirements outlined in this subsection.

A lender also may review its records to identify other loans made to a borrower (or student) who appears to qualify for closed school loan discharge. If the lender identifies other potentially eligible borrowers, these must be included in the mailing of loan discharge applications. The lender must include in its population of potentially eligible borrowers any borrower whose loan is in default, even if a default claim has been filed with the guarantor (but not yet paid). See information under the subheading "Processing the Discharge on a Defaulted Loan or Another Claim—Eligible Loan" for more information regarding the special processing requirements for defaulted loans potentially eligible for closed school loan discharge.

Upon receiving information that the underlying loans included in a Consolidation loan may be eligible for discharge due to school closure, the lender of the underlying loans must forward the loan discharge application, 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. If the lender of an underlying loan before consolidation is unable to identify the Consolidation loan holder, the lender must forward the discharge application to the borrower with instructions that the borrower send the completed application to the Consolidation loan holder.

▲ Lenders may contact individual guarantors for more information. See Section 1.5 for contact information.

### Suspending Collection Activity

If a guarantor or the Department notifies a lender, or the lender receives reliable information from another source (such as a telephone call or letter from the borrower) that a borrower may be eligible for a closed school loan discharge, the lender must immediately suspend all collection activity and must grant an administrative forbearance on any affected loan. If the notification indicates that the school closure discharge may be applicable to any underlying loan(s) of a Consolidation loan, the lender must suspend collection activity on the entire Consolidation loan. The lender must grant an administrative forbearance on the borrower's potentially eligible loan for a 60-day period, beginning on the date the loan discharge application is sent to the borrower for completion.

This period of administrative 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, if a forbearance is granted, the forbearance must begin immediately upon the expiration of the grace, forbearance, or deferred status and end 60 days after the date the loan discharge application was sent to the borrower.

If the borrower continues to make payments during the forbearance period, the lender is not required to return those payments to the borrower until the guarantor determines the borrower's eligibility for loan discharge. The lender must resume collection activity if the borrower fails to return a completed loan discharge application within 60 days after the date the application is sent to the borrower, or within 30 days from receiving notification that the loan is ineligible for closed school loan discharge. The lender may capitalize the interest accrued during the administrative forbearance period.
[§682.402(d)(7)(ii); §685.214(f)(4)]

### Notifying the Borrower

Along with the loan discharge application 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 loan discharge application 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 the capitalization of interest accrued during the forbearance period.

If a borrower's address is unknown or the loan discharge application is returned as undeliverable and the borrower's loan is delinquent, the lender must attempt to locate the borrower as required in applicable skip tracing provisions (see Subsection 12.7.C). 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 to the borrower the loan discharge application and other applicable notices regarding discharge eligibility and an explanation of forbearance, including the effect of capitalization. If the loan discharge application is resent to the borrower, the administrative forbearance period described previously in this subsection must not exceed a total of 60 days after the date on which the lender originally sent the loan discharge application to the borrower.

### Processing the Discharge Application

If a borrower returns to the lender a fully completed and signed loan discharge application, the lender must determine whether the borrower appears to qualify for loan discharge. If the borrower appears to qualify, the lender must file a claim according to the requirements outlined in this subsection. If a borrower returns to the guarantor a fully completed and signed loan discharge application, the guarantor will review the loan discharge application and determine the borrower's eligibility for discharge. The guarantor will notify the lender that the borrower qualifies for loan discharge and that the lender must file a claim, or that the borrower does not qualify for loan discharge and that the lender must resume applicable collection activity.
[§682.402(d)(7)(iii)]

If a borrower submits an incomplete loan discharge application—except in the case of a missing signature—the lender or guarantor must promptly return the loan discharge application to the borrower, with an explanation of why the loan discharge application is considered incomplete, or contact the borrower to obtain the missing information. If the borrower's signature is missing, the loan discharge application 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 loan discharge application was originally sent to the borrower.

If a borrower fails to submit a completed loan discharge application within 60 days of being notified of that option, the lender must resume collection activity on the affected loan(s). The lender is deemed to have exercised forbearance on the loan(s) beginning on the date on which the lender suspended collection activity. The lender may capitalize unpaid interest that accrues during the forbearance period.
[§682.402(d)(6)(ii)(H); §685.214(f)(4)]

A borrower's request for loan discharge cannot be denied solely due to the borrower's failure to return the completed loan discharge application within 60 days. If the lender receives a completed loan discharge application from the borrower at a later date, the lender must process the loan discharge application and, if the borrower appears to qualify for the loan discharge, file a claim with the guarantor.
[§682.402(d)(6)(ii)(I)]

### Processing the Discharge on a Defaulted Loan or Another Claim—Eligible Loan

A borrower may be eligible for closed school loan discharge even if his or her loan is in default. A lender must process loan discharge applications for defaulted loans differently from loans that have not reached the 270th day of delinquency.

If a claim has been filed due to bankruptcy, the ineligibility of the borrower, death, disability, or false certification—or if skip tracing is exhausted for a borrower who has a delinquent loan with an invalid address—the lender must not request that the guarantor return the claim. However, the lender must notify the guarantor of the potential discharge.
[§682.402(d)(7)(i)]

The lender must exercise particular care when sending the discharge application to a borrower who has filed bankruptcy. The cover letter must clearly state that the lender is not trying to "collect" on the loan.

*Default Claim Not Yet Filed*

If the loan is 270 or more days delinquent and the lender has not yet filed a claim, the lender or guarantor must identify the borrower's potential eligibility for loan discharge and send the loan discharge application and other applicable notifications to the borrower as required earlier in this subsection. The lender must process an administrative forbearance on the loan (see the subheading "Suspending Collection Activity"). If the lender did not receive the discharge notification from the guarantor, the lender must notify the guarantor of each borrower it identifies as potentially eligible for loan discharge due to the student's school's closing.

If the borrower does not return the loan discharge application within 60 days, or the guarantor or the Department has not instructed the lender to file a closed school loan discharge claim, the lender must discontinue the administrative forbearance and file the default claim. (See Subsection 11.21.C for more information regarding the administrative forbearance on the loan and how it impacts the loan's delinquency.)

*Default Claim Filed, But Not Yet Paid*

If the lender has filed a default claim with the guarantor and that claim has not yet been paid, the lender or guarantor must identify the borrower's potential eligibility for loan discharge and send the loan discharge application and applicable notifications to the borrower as required earlier in this subsection. In most cases, the lender may request that the guarantor return the default claim. (Lenders must not request the return of a default claim if the borrower's address is invalid.) If the lender does not request the return of the claim, the guarantor will continue default claim processing. If the guarantor returns the claim to the lender, the lender must process an administrative forbearance on the loan. In addition, if the lender did not receive the discharge notification from the guarantor, the lender must notify the guarantor of each defaulted, claim-filed borrower it identifies as potentially eligible for loan discharge due to the closing of the student's school. The lender must send the notice to the guarantor on the same day the lender sends the loan discharge application materials to the borrower.

If the borrower returns a completed loan discharge application within 60 days and the guarantor returned the claim to the lender, the lender must refile the claim as a closed school loan discharge claim within 60 days of the date on which it receives either the completed loan discharge application or notice from the guarantor to file a closed school loan discharge claim. If the borrower does not return the completed loan discharge application and the guarantor returned the claim to the lender, the lender must refile the default claim within 60 days of the end of the administrative forbearance period.

The following time frames apply to the refiling of a default claim that the guarantor returned to the lender or for which the guarantor suspended claim processing due to the pending closed school loan discharge. Time frames are measured from the earlier of the date the lender receives notice from the guarantor to refile the default claim or, if no response is received from the borrower, within 60 days of the end of the administrative forbearance period. The lender must refile the default claim:

- Within 30 days to ensure that the claim will be paid including all outstanding interest.

- On or after day 31, but no later than day 60, to ensure that the claim will be paid, but interest will be limited to 270 days.

If the closed school loan discharge claim is not filed within the required 60 days, the guarantor will pay the claim but the payment will reflect 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 claim filing period.

If the claim is not filed as a closed school loan discharge claim, the loan's delinquency resumes at the point at which it was suspended and the lender must refile or notify the guarantor to resume processing the default claim. If the lender does not refile the default claim within 60 days of the events noted above, a timely filing violation exists and the guarantee on each applicable loan is canceled. To reinstate the guarantee, the lender must complete the cure procedures for timely claim filing violations (see Subsection 14.5.D). If the guarantee on the loan has been canceled, but the lender later receives and forwards to the guarantor a completed discharge application, the guarantor will review the discharge application and, if approved, will waive the timely filing violation and will pay the closed school loan discharge claim. However, the guarantor will pay only the principal balance; no interest will be paid to the lender in these situations.

If the guarantor did not return the claim, and the borrower returns a completed and signed loan discharge application within 60 days, the lender must forward all pertinent documentation to the guarantor. If the guarantor did not return the claim and the borrower fails to return the completed loan discharge application within 60 days, the lender must notify the guarantor that the closed school loan discharge is no longer pending.

### Claim Filing Requirements

A lender must file a closed school loan discharge claim within 60 days of receiving a completed loan discharge application from the borrower or, if the guarantor has obtained the application directly from the borrower, within 60 days of the date of the guarantor's notification to file a closed school loan discharge claim. Failure to meet this timely filing deadline may result in an interest penalty.

A lender facilitates the timely and accurate processing of closed school loan discharge claims by ensuring that a completed loan discharge application from the borrower is submitted with each closed school loan discharge claim. It is critical that each field on the application is completed by the appropriate party.

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 13.3.E).

Closed school loan discharge claim file documentation differs from that required for other claim types and is specific to the type of loan being discharged and the loan's status.

*Claim File Documentation*

If the closed school loan discharge claim includes FFELP loans with outstanding balances or is comprised solely of FFELP loans paid in full by or on behalf of the borrower, the lender must submit all of the following documentation:

- The Claim Form, completed according to the instructions that accompany that form.

- The completed Loan Discharge Application: School Closure.

- The loan application, if a separate loan application was provided to the lender, and the promissory note (or a true and exact copy of the promissory note), assigned to the guarantor. If the original or copy of the application or promissory note cannot be located, the guarantor and the lender must examine their records and any documentation submitted by the borrower to determine whether the borrower qualifies for a discharge or refund. If the Master Promissory Note (MPN) is signed by a third party with power of attorney (POA) for the borrower, the lender must also submit a copy of the applicable POA document.

- 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.

- The total of 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.

If borrower payment records are unavailable or incomplete at the time the lender files the claim, the lender must file the closed school loan discharge claim with the guarantor 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 may be paid later through a supplemental claim based on proof of borrower payments or supplemental documentation provided by the lender.

Supporting documentation not required for claim submission must be retained by the lender in accordance with federal requirements. (See Subsection 3.4.A for information on lender record retention requirements.)

*Special Claim Filing Requirements for Consolidation Loans*

In addition to the claim file documentation listed above, if the closed school loan discharge claim includes Stafford, PLUS, or SLS loans that have been paid in full as a result of a Consolidation loan, the consolidation lender also must include all of the following documentation:

- Information to identify the loan type(s) of each underlying loan(s). The Claim Form must not identify the loan as a Consolidation loan.

- The loan application, if a separate loan application was provided to the lender, and the promissory note (or a true and exact copy of the promissory note) for each of the underlying loans. If the lender is aware that the MPN for any of the underlying loans is signed by a third party with POA for the borrower, the lender must also submit a copy of the applicable POA document.

- The disbursement date of each of the underlying loans for which discharge is requested.

- The identity of each previous, underlying loan holder.

- The amount paid to each previous loan holder when the loan was consolidated.

- The total amount of payments that were made by or on behalf of the borrower and applied to each applicable underlying loan before consolidation.

- 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.

#### Processing an Approved Discharge

If the guarantor determines that a loan is eligible for closed school loan discharge, 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). (For more information on how to manage an overpayment on a loan, see the subheading "Claim Payment.")

After receiving claim payment, the lender must:

- 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.

- Within 30 days, notify the borrower that the loan obligation has been discharged.

- Within 30 days, instruct all nationwide consumer reporting agencies to which the lender previously reported information on the loan to delete all adverse credit history associated with the discharged loan.

[§682.402(d)(7)(iv); §685.214(b)(4); §685.214(f)(5)]

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.

#### Denying the Discharge

If a guarantor determines that a loan is not eligible for discharge under closed school loan discharge provisions, it will return the claim to the lender with an explanation of why the borrower is not eligible. The lender must, within 30 days:

- Notify the borrower of the reasons for denial.

- Resume collection efforts. The lender may capitalize outstanding interest that accrued during the forbearance period.

[§682.402(d)(7)(v); §685.214(f)(6)]

#### Claim Payment

If the guarantor approves the closed school loan discharge, the claim payment amount will include remaining principal, outstanding accrued interest, and collection costs incurred by the lender (if those costs were applied to the borrower's account within 30 days of the date the costs were incurred). If a lender meets all timely filing and refiling requirements, interest will be paid through the claim payment date.

If the claim payment amount exceeds the outstanding balance on the loan(s) on which the borrower requests closed school loan discharge or if the loan on which the borrower requests loan discharge is paid in full, the excess must be refunded to the borrower. The lender must refund excess monies to the borrower for a loan on which a default claim has not been filed.

On the same date that 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 payments made on the loan, minus any funds received from a third-party source.

If borrower payment records are unavailable or incomplete at the time the lender files the claim, 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 may be paid later through a supplemental claim based on proof of borrower payments or supplemental documentation provided by the lender.

If the guarantor holds a defaulted loan for the borrower and the defaulted loan is not eligible for discharge, the guarantor may apply the refund amount to the outstanding balance of the defaulted loan account. The guarantor will notify the borrower of the application of the refund to repay the defaulted loan(s). The guarantor will refund to the borrower any payment exceeding the remaining balance of the defaulted loan.

If an underlying loan is determined to be eligible for discharge, the claim amount paid to the holder of the Consolidation loan will include the sum of the following:

- The amount paid by the consolidation lender to the prior loan holder.
- Interest on the amount paid to the prior loan holder accrued from the date of consolidation through the date of discharge.
- The amount of all payments made by or on behalf of the borrower on each of the underlying loans that are determined eligible for discharge, less any payments received from a third-party source (e.g., a tuition recovery plan).

The Consolidation loan holder must apply any claim payment amount received from the guarantor to the remaining balance of the Consolidation loan. If applying the claim payment results in the Consolidation loan being paid in full, any excess funds must be refunded to the borrower.

The guarantor will notify the lender and the borrower that the loan obligation has been discharged.

## 13.8.C Death

If a borrower of a loan for which there is no comaker dies, his or her loan is discharged. In the case of a PLUS loan obtained for a dependent student, the parent borrower's loan is discharged if the student dies. Any endorser is released from his or her repayment obligation upon the discharge of a loan.
[§682.402(b)(1); §685.212(a)(1)]

If a loan is made to two borrowers as comakers, the loan is discharged if both comakers have died or if one comaker has died and the other comaker has had his or her obligation to repay the loan discharged on another basis (such as bankruptcy or total and permanent disability). For a PLUS loan, if only one comaker dies and his or her obligation to repay the loan is discharged, the surviving comaker is obligated to repay the entire PLUS loan balance. For a Consolidation loan, the portion of the loan attributable to the comaker who has died is discharged. The surviving comaker is obligated to repay the remaining Consolidation loan balance.
[§682.402(a)(2) and (3)]

The underlying portion of a Consolidation loan attributable to a PLUS loan obtained for a dependent student is eligible for discharge if that student dies. The borrower of the Consolidation loan (or both comakers in the case of a joint Consolidation loan made to a married couple) is obligated to repay the remaining Consolidation loan balance.
[§682.402(b)(6); §685.212(a)(3)]

### Discharge When Guarantee Is Lost

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, I.E.2.]

### Suspending Collection

If a lender receives reliable but unofficial notification of a borrower's death, or the death of a student for whom a PLUS loan was made in the case of a PLUS loan or Consolidation loan that paid in full a PLUS loan, the lender must suspend collection activity on the loan for up to 60 days and diligently attempt to obtain an original or certified copy, or an accurate and complete photocopy of

the original or certified copy, of the death certificate. In the event of an exceptional circumstance and on a case-by-case basis, the guarantor's CEO may approve a discharge based on other reliable documentation. If additional time is needed to obtain this documentation, collection activity may be suspended for up to an additional 60 days, for a total suspension of up to 120 days. If documentation is not received, the lender should treat the period of suspension as though a forbearance had been granted. A signed forbearance agreement is not required for this period. The delinquency status, if any, that existed on the loan before the lender suspended its collection activity remains. The lender must resume collection activity immediately at the level of delinquency at which it was suspended.
[§682.402(b)(3)]

After receiving an original or certified copy, or an accurate and complete photocopy of the original or certified copy, of the borrower's or student's death certificate or notification of discharge approval from the guarantor, the lender may not attempt to collect on a loan or the discharged portion of a loan from the borrower, the borrower's estate, or any endorser.
[§682.402(b)(4)]

#### 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)(5); §685.212(g)(1)]

#### Disbursements That Are Not Consummated at the Time of the Borrower's or Student's Death

A Stafford or PLUS loan disbursement that is unconsummated when the borrower—or the dependent student for whom a parent borrows a PLUS loan—dies is not insured. If a lender learns that a borrower—or a student, as applicable—died before a loan disbursement is consummated, the lender must cancel all remaining disbursements of the loan. If after making a loan disbursement to a school, the lender learns that the borrower—or student, as applicable—died before a disbursement is consummated, the lender must contact the school and request an immediate repayment of the unconsummated funds. The school must comply with any request from a lender to return funds that were disbursed to the school after the borrower's or student's death. See Subsection 7.7.L for information about consummated and unconsummated disbursements. See Subsection 8.9.D for information about returning loan funds for a deceased borrower.

#### Timely Filing Deadline for Death Claims

A lender must file a death claim within 60 days of receiving an original or certified copy, or an accurate and complete photocopy of the original or certified copy, of the death certificate. If a lender discovers that it has on file a photocopy of a death certificate for an account that was never submitted as a death claim or was denied as a death claim (because at the time of original receipt, copies were not acceptable proof of the borrower's death), the lender must file the death claim within 60 days of that discovery. In the event of an exceptional circumstance and on a case-by-case basis, the guarantor's CEO may approve a discharge based on other reliable documentation.
[§682.402(b)(2) and (g)(2)(i)]

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, 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 filing deadline. (See Section 14.4.)
[§682.402(g)(2)(i)]

## 13.8.D
## False Certification by the School

A borrower who meets all of the requirements that pertain to a particular type of false certification loan discharge as outlined in this subsection is eligible to have his or her applicable loan(s) discharged. A borrower qualifies for a false certification loan discharge of the loan, in full or in part, if the borrower—or the student for whom a parent obtained a PLUS loan—received any part of the proceeds of a FFELP loan on or after January 1, 1986, to attend a school that did any one of the following:

- 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, unless the borrower intended to obtain the loan and the student for whom the loan was made benefited from the proceeds of the loan.

- Endorsed the borrower's name on the loan check or signed the authorization for electronic funds transfer (EFT) 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.

If the guarantor determines that a borrower is eligible for a loan discharge or a discharge of one or more disbursements of a loan, the discharge cancels the obligation of the borrower to repay the applicable outstanding principal, accrued interest, collection costs, and late fees. It also qualifies the borrower for reimbursement of any amounts paid voluntarily or through forced collection on the amount discharged. The lender or guarantor must ensure that a discharge is reported to nationwide consumer reporting agencies such that any adverse credit history associated with the amount discharged is removed.
[HEA §437(c)]

The guarantor or Department may initiate the discharge process if either determines that the borrower is eligible for discharge based on information in its possession. If, however, the borrower initiates the process by requesting a discharge based on false certification, the borrower must complete, certify, and submit to the lender or guarantor the applicable loan discharge application. Through submission of this application, the borrower:

- Agrees to provide, as requested, other reasonably available true and correct 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, discloses the amount of any payment received by the borrower (or student) or credited to the loan obligation.

If the lender receives the preliminary notification that the loan was falsely certified, the lender may send the loan discharge application to the borrower. If the guarantor receives the preliminary notification that the loan was falsely certified, the guarantor may send the loan discharge application to the lender for the lender to forward to the borrower. In other cases, the guarantor may send the loan discharge application directly to a potentially eligible borrower and notify the lender of the potential discharge. In such cases, the guarantor also may request that the borrower return the application to the guarantor for a determination of eligibility. The guarantor will notify the lender of the borrower's eligibility for the loan discharge.

#### Suspending Collection Activity

If a guarantor or the Department notifies a lender, or the lender receives reliable information from another source (such as a telephone call or letter from the borrower) that a borrower may be eligible for a false certification loan discharge, the lender must immediately suspend all collection activity and must grant an administrative forbearance on any affected loan. If the notification indicates that the false certification loan discharge may be applicable to any underlying loan(s) of a Consolidation loan, the lender must suspend collection activity on the entire Consolidation loan.

The lender must grant the borrower a 60-day administrative forbearance beginning no earlier than the date the loan discharge application was sent to the borrower. The forbearance must be applied to all loans that are potentially eligible for discharge. Forbearance is unnecessary for borrowers whose loans are in a grace, forbearance, or deferred status—unless the grace, forbearance, or deferred status expires before the end of the 60-day administrative forbearance period. In these cases, the 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 loan discharge application was sent to the borrower.

If the borrower continues to make payments during the forbearance period, the lender is not required to return those payments to the borrower until the borrower's eligibility for discharge is determined. The lender must resume collection activities if the borrower fails to return a completed loan discharge application and within 60 days after the date the application is sent to the borrower. The lender must resume

collection activities within 30 days from receiving notification that the loan or any part of the loan is ineligible for false certification loan discharge. The lender may capitalize the interest accrued during the administrative forbearance period.

### Notifying the Borrower

Within 30 days of the date the lender receives information that the borrower may be eligible for a false certification loan discharge, the lender must send information to the borrower regarding how to request loan discharge. The lender must provide the following information to potentially eligible borrowers:

- Eligibility requirements for false certification loan discharge.

- Appropriate forms to request loan discharge due to false certification and instructions for completing the loan discharge application and submitting it within 60 days. If the guarantor or Department initiates the discharge based on knowledge of false certification eligibility, the borrower may not be required to complete a loan discharge application.

- An explanation of the administrative forbearance applied to each of the borrower's potentially eligible loans and the effect of the capitalization of interest accrued during the forbearance period. [§682.402(e)(12)(i); §685.205(b)(6)(ii)]

If the borrower's address is unknown or the loan discharge application is returned as undeliverable and the borrower's loan is delinquent, the lender must attempt to locate the borrower as required in applicable skip tracing provisions (see Subsection 12.7.C). 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 to the borrower the loan discharge application and other applicable notices regarding discharge eligibility and an explanation of forbearance, including the effect of capitalization.

### Eligibility Criteria

If the borrower initiates the discharge process by notifying the guarantor or lender of his or her potential eligibility for discharge, the borrower must complete a loan discharge application. The lender or guarantor will send the loan discharge application that is applicable to the type of false certification asserted by the borrower. By completing the loan discharge application, the borrower is certifying specific elements of the eligibility criteria applicable to each of the three categories of false certification provisions. The borrower may also be required to provide additional information or documentation to substantiate the assertion of false certification.

*False Certification of Ability to Benefit*

If the borrower initiates the process by requesting a discharge based on the school's improper determination of the student's ability to benefit, the borrower must complete, certify, and submit to the lender or guarantor the Loan Discharge Application: False Certification of Ability to Benefit form. Through submission of this application, the borrower makes 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.

In the case of a borrower requesting a discharge due to a disqualifying status, the borrower must complete, certify, and submit to the lender or guarantor the Loan Discharge Application: False Certification (Disqualifying Status) form. Through submission of this application, the borrower:

- States that he or she (or the student in the case of a PLUS borrower) was unable to meet the legal requirements for employment in the student's state of residence in the occupation for which the program of study was intended due to age (upon completion of training), physical or mental condition, criminal record, or other reason.

- Provides information about the state legal requirement for employment that the student could not meet, including a reference to or a copy of the specific state law or regulation.

- Provides supporting documentation proving that the borrower had the disqualifying status at the time the loan was certified or originated.

*School Signed Loan Application or Promissory Note*

In the case of a borrower requesting a discharge because the school signed the borrower's name on the loan application or promissory note without the borrower's authorization, the borrower must complete, certify, and submit to the lender or guarantor the Loan Discharge Application: False Certification (Unauthorized Signature/Unauthorized Payment) form. Through submission of this application, the borrower:

- States that the signature on the loan application or promissory note is not his or her signature.
- Provides five different samples 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.

*School Signed Loan Check or EFT Authorization*

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 EFT or master check, the borrower must complete, certify, and submit to the lender or guarantor the Loan Discharge Application: False Certification (Unauthorized Signature/Unauthorized Payment) form. Through submission of this application, the borrower:

- Certifies that he or she did not endorse the loan check or sign the authorization for EFT or master check, or authorize the school to do so.
- Provides five different samples 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.
- States 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.

**Processing the Discharge Application**

If a borrower returns to the lender a fully completed and signed loan discharge application, the lender must file a claim according to the requirements outlined in this subsection. However, in a situation in which the borrower claims that the school improperly endorsed or signed the borrower's name on a loan check and that the borrower did not receive the loan proceeds, the lender must first 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 must not report the loan as defaulted to nationwide consumer reporting agencies until a final determination is made by the guarantor or the Department. [§682.402(e)(12)(v)]

If a borrower returns to the guarantor a fully completed and signed loan discharge application, the guarantor will review the application and determine the borrower's eligibility for false certification discharge. The guarantor will notify the lender either that the borrower qualifies for loan discharge and the lender must file a false certification loan discharge claim, or the borrower does not qualify for loan discharge and the lender must resume applicable collection activity. [§682.402(e)(6)(iv)]

If a borrower submits an incomplete loan discharge application—except in the case of a missing signature—the lender or guarantor must promptly return the application to the borrower with an explanation of why the form is considered incomplete, or contact the borrower to obtain the missing information. If the borrower's signature is missing, the lender or guarantor must return the loan discharge application to the borrower. The lender or guarantor must document the borrower's 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 on which the loan discharge application was originally sent to the borrower.

If a borrower fails to submit a completed loan discharge application within 60 days of being notified of that option, the lender must resume collection activity on the affected loan(s). The lender is deemed to have exercised forbearance on the loan(s) beginning on the date on which the lender suspended collection activity. The lender may capitalize unpaid interest that accrues during the forbearance period. [§682.402(e)(12)(ii); §685.215(d)(2)]

A borrower's request for loan discharge cannot be denied solely due to the borrower's failure to return the completed request within 60 days. If the lender receives a completed loan discharge application from the borrower at a later date, the lender must process the loan discharge application and, if the borrower appears to qualify for the loan discharge, file a claim with the guarantor. [§682.402(e)(6)(v)]

### Processing the Discharge on a Defaulted Loan or Another Claim-Eligible Loan

A borrower may be eligible for false certification loan discharge even if his or her loan is in default. A lender must process loan discharge applications for defaulted loans differently from loans that have not reached the 270th day of delinquency.

If a claim has been filed due to bankruptcy, the ineligibility of the borrower, death, disability, or closed school—or if skip tracing is exhausted for a borrower who has a delinquent loan with an invalid address—the lender must not request that the claim be returned. However, the lender must notify the guarantor of the potential false certification loan discharge.

The lender must exercise particular care when sending the loan discharge application to a borrower who has filed bankruptcy. The cover letter must clearly state that the lender is not trying to "collect" on the loan.

*Default Claim Not Yet Filed*

If the loan is 270 or more days delinquent, and the lender has not yet filed a claim on the loan, the lender or guarantor must identify the borrower's potential eligibility for loan discharge and send the loan discharge application and other applicable notifications as required earlier in this subsection. The lender must process an administrative forbearance on the loan (see the subheading "Suspending Collection Activity"). If the lender did not receive the discharge notification from the guarantor, the lender must notify the guarantor of each borrower it identifies as potentially eligible for false certification loan discharge.

If the loan discharge application is not returned within 60 days or the guarantor or the Department has not instructed the lender to file a false certification loan discharge claim, the lender must discontinue the administrative forbearance and file the default claim. (See Subsection 11.21.C for more information regarding the administrative forbearance on the loan and how it impacts the loan's delinquency.)

*Default Claim Filed, But Not Yet Paid*

If the lender has filed a default claim with the guarantor and that claim has not been paid, the lender or guarantor must identify the borrower's potential eligibility for loan discharge and send the discharge application and applicable notifications to the borrower as required earlier in this subsection. In most cases, the lender may request that the guarantor return the default claim. If the lender does not request the return of the claim, the guarantor will continue default claim processing. If the guarantor returns the claim, the lender must process an administrative forbearance. In addition, if the lender did not receive the discharge notification from the guarantor, the lender must notify the guarantor of each defaulted, claim-filed borrower it identifies as potentially eligible for loan discharge due to false certification. The lender must send the notice to the guarantor on the same day the lender sends the loan discharge application materials to the borrower.

If the borrower returns a completed discharge application within 60 days and the guarantor returns the claim, the lender must refile the claim as a false certification loan discharge claim within 60 days of the date on which it receives either the completed loan discharge application or notice from the guarantor to file a false certification loan discharge claim. If the borrower does not return the completed loan discharge application and the guarantor returns the claim, the lender must refile the default claim within 60 days of the end of the administrative forbearance period.

The following time frames apply to the refiling or the reactivation of a default claim that the guarantor returned due to the pending false certification loan discharge. Time frames are measured from the earlier of the date the lender receives notice from the guarantor to refile the default claim or the end of the administrative forbearance period. The lender must refile the default claim:

- Within 30 days to ensure that the claim will be paid including all outstanding interest.

- On or after day 31, but no later than day 60, to ensure that the claim will be paid, but interest will be limited to 270 days.

If the claim is not filed as a false certification loan discharge claim, the loan's delinquency resumes at the point at which collection activity was suspended and the lender must refile the default claim as noted above. If the lender does not refile the default claim within 60 days of the events noted above, a timely filing violation exists and the guarantee on each applicable loan is canceled. To reinstate the guarantee, the lender must complete cure procedures for timely claim filing violations (see Subsection 14.5.D). If the guarantee on the loan has been canceled, but the lender later receives and forwards to the guarantor a completed loan discharge application, the guarantor will review the loan discharge application and, if approved, will waive the timely filing violation and will purchase the false certification loan

discharge 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 the guarantor did *not* return the claim, and the borrower returns a completed loan discharge application within 60 days, the lender must notify the guarantor to reactivate the claim as a false certification loan discharge claim and must forward all pertinent documentation to the guarantor. If the guarantor did not return the claim and the borrower fails to return the completed loan discharge application within 60 days, the lender must notify the guarantor that the 60-day response time frame has expired and the lender has not received the loan discharge application.

The false certification loan discharge claim filing deadline is measured from the earlier of the date the lender receives a completed loan discharge application from the borrower or the date the lender receives notice from the guarantor to file the false certification claim. If the false certification claim is not filed within 60 days of the earlier of these events, the guarantor will pay the claim but the payment will reflect an interest penalty, and the guarantor will require the lender to repay all interest benefits and special allowance payments for amounts received or otherwise payable after the 60-day claim filing period.

### Claim Filing Requirements

A lender must file a false certification loan discharge claim within 60 days of receiving a completed loan discharge application from the borrower or, if the guarantor has obtained the discharge application directly from the borrower, within 60 days from the date of the guarantor's notification to file a false certification loan discharge claim. Failure to meet this timely filing deadline may result in an interest penalty.

A lender facilitates the timely and accurate processing of a false certification loan discharge claim by ensuring that a completed loan discharge application from the borrower is submitted with each claim. It is critical that each applicable field on the application is completed appropriately.

The lender must forward to the guarantor within 30 days of receipt any borrower payments it receives after the claim has been filed (see Subsection 13.3.E).

False certification loan discharge claim file documentation differs from that required for other claim types and is specific to the loan type and status of the loan on which the claim is being filed and the circumstances of the discharge request.

*Claim File Documentation*

If the false certification claim includes FFELP loans with outstanding balances or is comprised solely of FFELP loans paid by or on behalf of the borrower, the lender must submit all of the following documentation:

- The Claim Form, completed according to the instructions that accompany that form.
- The completed applicable loan discharge application due to false certification. If the guarantor or Department initiated the discharge based on knowledge of false certification eligibility, the lender may not be required to submit a loan discharge application.
- Any required borrower signature samples or disbursement checks (as applicable).
- The loan application, if a separate loan application was provided to the lender, and the promissory note (or a true and exact copy of the promissory note), assigned to the guarantor. If the original or copy of the loan application or promissory note cannot be located, the guarantor and the lender must examine their records and any documentation submitted by the borrower to determine whether the borrower qualifies for a discharge. If the Master Promissory Note (MPN) is signed by a third party with power of attorney (POA) for the borrower, the lender must also submit a copy of the applicable POA document.
- 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.
- The total of any payments 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 record retention requirements. (See Subsection 3.4.A for information on lender record retention requirements.)

*Special Claim Filing Requirements for Consolidation Loans*

In addition to the claim file documentation listed above, 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 also must include all of the following in the claim file:

- Information to identify the loan type of each underlying loan. The Claim Form must not identify the loan as a Consolidation loan.
- The loan application, if a separate loan application was provided to the lender, and the promissory note (or a true and exact copy of the promissory note) for each of the underlying loans. If the lender is aware that the MPN for any of the underlying loans is signed by a third party with POA for the borrower, the lender must also submit a copy of the applicable POA document.
- The disbursement date of each of the underlying loans for which discharge is requested.
- The identity of each previous, underlying loan holder.
- The amount paid to each previous loan holder when the loan was consolidated.
- The total amount of payments that were made by or on behalf of the borrower and applied to each applicable underlying loan before consolidation.
- An interest-paid-through date equal to the date of consolidation, unless a deferment was applied to the subsidized portion of a Consolidation loan such that it requires adjustment of the interest-paid-through date to a later date.

**Processing an Approved Discharge**

If the guarantor determines that a loan is eligible for discharge based on the school signing a loan application or promissory note without the borrower's authorization, or the school improperly determines the student's ability to benefit from the school's training, the guarantor will take the following actions within 30 days of approving the loan discharge or receiving notification from the Department that the borrower is eligible for the false certification loan discharge:

- Notify the borrower that his or her liability on the loan has been discharged with regard to the amount of the contested disbursement(s).
- Instruct all nationwide consumer reporting agencies to which the guarantor previously reported the status of the loan to delete all adverse credit history associated with the discharged loan.
- Refund to the borrower all amounts paid by the borrower to the lender or the guarantor with respect to the discharged loan, including any late fees or collection costs.
- Pay the applicable amount to the lender. (See information in this subsection regarding claim payment amounts.)
  [§682.402(e)(7)(ii)]

If the guarantor determines that a loan is eligible for discharge based solely on the school signing a borrower's loan check, or EFT or master check authorization without the borrower's permission, the guarantor will take the following actions within 30 days of approving the discharge:

- Notify the borrower that his or her liability has been discharged with respect to the amount of the contested loan disbursement and that the lender has been informed of the discharge.
- 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 has been discharged with respect to the amount of the contested loan disbursement.

[§682.402(e)(8)(ii)]

Upon receiving notification of the loan discharge from the guarantor as noted in the preceding bullet, 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.

- Within 30 days, instruct all nationwide consumer 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 discharged loan amount, including any charges imposed or costs incurred by the lender related to the discharged loan amount.

- Within 30 days, if applicable, reimburse the guarantor for the discharged loan amount, less borrower refunds. [§682.402(e)(10)]

- Within 30 days, adjust the loan record for any interest benefits and special allowance payments that the lender received on the loan or portion of the loan being discharged and report the adjustment on the next scheduled Lender's Interest and Special Allowance Request and Report (LaRS report) if the loan is being discharged because the borrower did not endorse and did not receive the proceeds of the loan disbursement check. [§682.402(e)(8)(ii)(B)(4)]

#### Denying the Borrower's Discharge

If the guarantor determines that a loan is not eligible for discharge due to false certification, the guarantor will ensure that the following actions are performed within 30 days of making the determination:

- Notify the lender that the borrower does not qualify for the requested discharge.

- Advise the lender that the false certification loan discharge claim, if one was filed, either will be returned to the lender or paid as a default claim, as applicable, depending on the borrower's actions to reaffirm the debt, if necessary.

- Notify the borrower that he or she does not qualify for discharge and explain the reasons for that determination.

In its notification to the borrower, 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 activity 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 discharge 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 activity.

The guarantor will purchase a default claim from 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.

If the lender is notified by the guarantor that the borrower does not qualify for a false certification loan discharge, the lender must resume applicable collection activity on the loan within 30 days of receiving the guarantor's notification. If a forbearance was applied to the loan pending the determination of the borrower's eligibility for false certification loan discharge, the lender may capitalize interest accrued during the forbearance period. The lender also must notify the borrower that the application for loan discharge was denied and the reason for that denial. [§682.402(e)(12)(vi)]

### Claim Payment

The guarantor will *not* pay a false certification loan discharge claim if the lender files the claim based solely on the guarantor's determination that the school endorsed the borrower's loan check without the borrower's authorization.

The guarantor will pay an eligible claim within 30 days of approving the loan discharge application if the lender files the claim based on either of the following assertions:

- The school signed the borrower's loan application or promissory note, or authorization for EFT or master check without the borrower's permission.
- The school failed to properly determine the student's ability to benefit from the school's training.

The claim payment amount on a loan with an outstanding balance will include the remaining principal balance, outstanding interest accrued on the loan, and collection costs incurred by the lender (if those costs were applied to the borrower's account within 30 days of the date the costs were incurred). If a lender meets all timely filing requirements, interest will be paid through the claim payment date.

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 (e.g., a tuition recovery program).

If a loan that is paid in full by consolidation is determined to be eligible for discharge, the claim amount paid to the Consolidation loan holder will include the amount paid by the consolidation lender to the prior holder plus interest and the sum 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 must be forwarded to the borrower.

If borrower payment records are unavailable or incomplete at the time the lender files the claim, 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 may be paid later through a supplemental claim based on proof of borrower payments or supplemental documentation provided by the lender.

On the same date that 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 payments made on the loan, minus any funds received from a third-party source.

## 13.8.E
## False Certification as a Result of the Crime of Identity Theft

An individual may obtain a false certification loan discharge on a loan(s) disbursed on or after January 1, 1986, if the individual's eligibility to receive the loan was falsely certified as a result of a crime of identity theft. For the purposes of false certification loan discharge, the term "individual" includes all endorsers on a loan. [§682.402(e)(1)(i); §685.215(c)(1)(i)]

If the guarantor determines that an individual is eligible for a loan discharge, the discharge cancels the obligation of the individual to repay the applicable outstanding principal, accrued interest, collection costs, and late fees. It also qualifies the individual for reimbursement of any amounts paid voluntarily or through forced collection on the amount discharged. The lender and guarantor must ensure that the discharge is reported to nationwide consumer reporting agencies such that any adverse or inaccurate credit history associated with the amount discharged is removed. [§682.402(e)(2); §685.215]

An individual may initiate the discharge process based on false certification as a result of the crime of identity theft by requesting the discharge and providing the lender or guarantor with all of the required documentation.

If the lender receives preliminary notification that the loan was falsely certified, the lender must send information explaining the loan discharge eligibility requirements to the individual. If the guarantor receives the preliminary notification that the loan was falsely certified, the guarantor may send the information explaining the loan discharge eligibility requirements to the lender to forward to the individual. In other cases, the guarantor may send the information explaining the loan discharge eligibility requirements directly to a potentially eligible individual and notify the lender of the potential discharge. In such cases, the guarantor also may request that the individual return the required documentation to the guarantor for a

determination of eligibility. The guarantor will notify the lender of the individual's eligibility for the loan discharge. [§682.402(e)(12)]

### Suspending Collection Activity

If a guarantor notifies a lender, or the lender receives reliable information from another source (such as a telephone call or written correspondence from the individual) that an individual may be eligible for a false certification loan discharge, the lender must immediately suspend all collection activity and must grant an administrative forbearance on any affected loan. [§682.402(e)(12)(i); §685.215(d)(1)]

The lender must grant an administrative forbearance on all loans that are potentially eligible for discharge. The forbearance may begin no earlier than the date that information explaining the loan discharge eligibility requirements is sent to the individual. The lender must resume collection activities if the individual fails to return a discharge request and the required documentation within 60 days after the date the information is sent to the individual. The lender must resume collection activities within 30 days from receiving notification that the loan is ineligible for false certification loan discharge. The lender may capitalize the interest accrued during the administrative forbearance period. [§682.402(e)(12)(i); §685.215(d)(1)]

If a lender receives a valid identity theft report (as defined in Section 603(q)(4) of the Fair Credit Reporting Act) or notification from a nationwide consumer reporting agency that a borrower's loan may have been the result of the crime of identity theft, the lender may grant an administrative forbearance for a period not to exceed 120 days while the lender determines the legal enforceability of the loan. [§682.211(f)(6)]

### Notifying the Individual

Within 30 days of the date the lender receives information that the individual may be eligible for a false certification loan discharge, the lender must send information to the individual regarding how to request the loan discharge. The lender must provide the following information to potentially eligible individuals:

- Eligibility requirements for false certification loan discharge as a result of the crime of identity theft.
- Appropriate instructions for sending a signed request for loan discharge and all required documentation to the lender, including instructions that the documentation must be submitted to the lender within 60 days.
- An explanation of the administrative forbearance applied to each potentially eligible loan(s) and the effect of the capitalization of interest accrued during the forbearance period.

[§682.402(e)(12)(i); §685.215(d)(1)]

### Eligibility Criteria

An individual qualifies for loan discharge if the individual does all of the following:

- Certifies that he or she did not sign the promissory note, or that any other means of identification used to obtain the loan were used without the authorization of the individual.
- Certifies that he or she did not knowingly receive or benefit from the proceeds of the loan that had been made without the individual's authorization.
- Provides to the lender a copy of a local, state, or federal court verdict or judgment that conclusively determines that the individual who is named as the borrower or endorser of the loan was the victim of a crime of identity theft by a perpetrator named in the verdict or judgment.

[§682.402(e)(3)(v); §685.215(c)(4)]

If the judicial determination of the crime does not expressly state that the loan was obtained as a result of the crime, the individual must provide all of the following:

- Five different samples of his or her signature, two of which must be no more than one year before or one year after the date of the contested signature, or other means of identification of the individual, as applicable, corresponding to the means of identification used falsely to obtain the loan.
- A statement of facts that demonstrates that eligibility for the student loan in question was falsely certified.

[§682.402(e)(3)(v); §685.215(c)(4)(iv)]

For the purposes of this subsection, identity theft is considered to be the unauthorized use of the identifying information of another individual that is punishable under 18 U.S.C. 1028, 1029, or 1030, or substantially comparable state or local law. Identifying information includes, but is not limited to, any of the following elements:

- Demographic data such as name, SSN, date of birth, official state or government issued driver's license or identification number, alien registration number, government passport number, or employer or taxpayer identification number.
- Unique biometric data, such as fingerprints, voiceprint, retina or iris image, or unique physical representation.
- Unique electronic identification number, address, or routing code.
- Telecommunication identifying information or access device [as defined in 18 U.S.C. 1029(e)].

[§682.402(e)(14)(i) and (ii)]

### Processing the Discharge

If an individual returns to the lender a request for loan discharge and all of the required documentation, the lender must file a claim with the guarantor. If an individual returns to the guarantor a loan discharge request and all of the required documentation, the guarantor will review the documentation and determine the individual's eligibility for false certification loan discharge. The guarantor will notify the lender that either the individual qualifies for the loan discharge and the lender must file a false certification loan discharge claim, or the individual does not qualify for loan discharge and the lender must resume applicable collection activity.
[§682.402(e)(7)(i) and (ii); §682.402(e)(12)(iii)]

If an individual submits incomplete documentation, the lender or guarantor must send the individual an explanation of why the documentation is incomplete. If the individual's signature is missing, the lender or guarantor must return the request to the individual. The lender or guarantor must document the 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 on which the loan discharge information was originally sent to the individual.

If an individual fails to submit complete loan discharge documentation within 60 days of being notified of that option, the lender must resume collection activity on the affected loan(s). The lender is deemed to have exercised forbearance on the loan(s) beginning on the date on which the lender suspended collection activity. The lender may capitalize unpaid interest that accrues during the forbearance period.
[§682.402(e)(12)(ii); §685.215(d)(2)]

An individual's request for loan discharge cannot be denied solely due to the individual's failure to return the request and required documentation within 60 days. If the lender receives complete documentation from the individual at a later date, the lender must process the loan discharge request and if the individual appears to qualify for the loan discharge, file a claim with the guarantor.
[§682.402(e)(6)(v)]

### Loss of Insurance

If a loan was made as a result of the crime of identity theft that was committed by an employee or agent of the lender, or if at the time the loan was made, an employee or agent of the lender knew of the identity theft of the individual named as the borrower or endorser on the loan, the loan is not insured and the holder must refund to the Department any amounts received as interest benefits and special allowance payments with respect to the loan.
[§682.402(e)(1)(iii)]

### Claim Filing Requirements

A lender must file a false certification loan discharge claim within 60 days of receiving complete loan discharge documentation from the individual or, if the guarantor has obtained the discharge documentation directly from the individual, within 60 days from the date of the guarantor's notification to file a false certification loan discharge claim. Failure to meet this timely filing deadline may result in an interest penalty.
[§682.402(e)(12)(iii)]

A lender facilitates the timely and accurate processing of a false certification loan discharge claim by ensuring that complete loan discharge documentation from the individual is submitted with each claim.

The lender must forward to the guarantor within 30 days of receipt any payments it receives after the claim has been filed.
[§682.402(e)(12)(iii)]

### Claim Filing Documentation

The lender must submit all of the following documentation to the guarantor:

- The Claim Form, completed according to the instructions that accompany that form.
- The individual's signed request for loan discharge and all required documentation provided by the individual, unless the individual submitted this information directly to the guarantor.
- The loan application, if a separate loan application was provided to the lender, and the promissory note (or a true and exact copy of the promissory note), assigned to the guarantor. If the original or copy of the loan application or promissory note cannot be located, the guarantor and the lender must examine their records and any documentation submitted by the individual to determine whether the individual qualifies for a discharge. If the MPN is signed by a third party with power of attorney (POA) for the individual, the lender must also submit a copy of the applicable POA document.
- The total amount of payments made by the individual or on behalf of the individual. This total should be provided on the Claim Form. If the total amount of payments made by or on behalf of the individual is not available, the lender must clearly explain why this information is not provided on the Claim Form.
- The total of any payments the lender is aware of having received from a third-party source. 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 individual.
- Supporting documentation not required for claim submission must be retained by the lender in accordance with federal record retention requirements. (See Subsection 3.4.A for information on lender record retention requirements.)

[§682.402(e)(12)(iv)]

### Processing an Approved Discharge

If the guarantor determines that a loan is eligible for discharge due to false certification, the guarantor will take the following actions within 30 days of approving the discharge:

- Notify the individual that his or her liability with respect to the amount of the loan has been discharged.
- Instruct all nationwide consumer reporting agencies to which the guarantor previously reported the status of the loan to delete all adverse credit history associated with the discharged loan.
- Refund to the individual all amounts paid by the individual to the lender or the guarantor with respect to the discharged loan(s), including any late fees or collection costs.
- Notify the lender that the individual's liability has been discharged.
- Pay the applicable amount to the lender.

[§682.402(e)(7)(ii); §685.215(b)(5) and (d)(4)]

Upon receiving notification of the loan discharge from the guarantor as noted above, the lender must:

- Discontinue any collection efforts against the individual with respect to the discharged loan amount and any charges imposed or costs incurred by the lender related to the discharged loan amount.
- Within 30 days, instruct all nationwide consumer reporting agencies to which the lender previously reported information on the loan to delete all adverse credit history associated with the discharged loan.

[§682.402(e)(7)(ii)(C)]

### Denying the Discharge

If the guarantor determines that a loan is not eligible for discharge due to false certification, the guarantor will ensure that the following actions are performed within 30 days of making the determination:

- Notify the lender that the individual does not qualify for the requested discharge.

- Advise the lender that the false certification loan discharge claim, if one was filed, will be either returned to the lender or paid as a default claim, as applicable, depending on the individual's actions to reaffirm the debt, if necessary.

- Notify the individual that he or she does not qualify for discharge and explain the reasons for that determination.

[§682.402(e)(7)(iii); §685.215(d)(5)]

In its notification to the individual, the guarantor will advise the individual that he or she remains obligated to repay the loan and warn the individual of the consequences of default. In addition, the guarantor will explain that the individual will be considered to be in default on the loan—unless he or she fulfills either of the following requirements within 30 days:

- Submits a written statement to the guarantor in which the individual 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 activity 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 discharge 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 activity.

[§682.402(e)(7)(iii); §685.215(d)(5)]

The guarantor will purchase a default claim from 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. [§682.402(e)(7)(vi)]

If the guarantor notifies the lender that the borrower does not qualify for a false certification loan discharge, the lender must resume applicable collection activity on the loan within 30 days of receiving the guarantor's notification. If a forbearance was applied to the loan pending the determination of the borrower's eligibility for false certification loan discharge, the lender may capitalize interest accrued during the forbearance period. The lender must also notify the borrower that the loan discharge was denied and the reason for that denial.

#### Claim Payment

The guarantor will pay an eligible claim within 30 days of approving the loan discharge application if the lender files the claim based on false certification as a result of the crime of identity theft.

## 13.8.F Spouses and Parents of Victims of September 11, 2001

The Third Higher Education Extension Act (THEEA) of 2006, provides for loan discharge for spouses and parents of eligible public servants and certain other eligible victims of the September 11, 2001, terrorist attacks. The discharge is available to the spouses and parents of eligible public servants and eligible victims who died or became permanently and totally disabled due to physical injuries suffered in the attacks. The discharge is authorized for FFELP loan amounts which were owed on September 11, 2001, and Consolidation loans incurred to pay off loan amounts that were owed on September 11, 2001. The statute does not authorize a refund of payments made by a borrower prior to the date the loan is discharged. [§682.407(b); §685.218(b)]

To qualify for the discharge, the borrower or the borrower's representative must submit a Loan Discharge Application: Spouses and Parents of September 11, 2001, Victims form and all required documentation to the lender. [§682.407(c)(2) and (4)(ii); §685.218(c)(2)]

#### Eligibility Requirements

A borrower's obligation to make further payments on their own loans is discharged if the borrower was, at the time of the terrorist attacks on September 11, 2001, and currently is, the spouse of an eligible public servant, unless the eligible public servant has died. If the eligible public servant has died, the borrower must have been the spouse of the eligible public servant at the time of the terrorist attacks and until the date the eligible public servant died. [§682.407(b)(1); §685.218(b)(1)]

A borrower's obligation to make further payments towards the portion of a joint Consolidation loan attributable to the eligible victim is discharged if the borrower was, at the time of the terrorist attacks, and currently is, the spouse of an eligible victim, unless the eligible victim has died. If the

eligible victim has died, the borrower must have been the spouse of the eligible victim at the time of the terrorist attacks and until the date the eligible victim died.
[§682.407(b)(2); §685.218(b)(2)]

The obligation of a parent borrower and any endorser to make any further payments on a PLUS loan incurred on behalf of an eligible public servant or eligible victim is discharged. The obligation of the parent borrower to make any further payments towards the portion of a Consolidation loan that repaid a FFELP or FDLP PLUS loan incurred on behalf of an eligible public servant or eligible victim is also discharged. In the case of an obligation of a parent incurred on behalf of an eligible public servant, the procedures and documentation requirements are the same as those for the parent of an eligible victim.
[§682.407(b)(3)(i) and (ii); §682.407(b)(4); §685.218(b)(3)(i) and (ii); §685.218(b)(4)]

### Applicable Definitions

Solely in the context of the September 11, 2001, loan discharge, the following definitions apply:

*Eligible public servant* means an individual who served as a police officer, firefighter, other rescue or safety personnel, or as a member of the Armed Forces, and died or became permanently and totally disabled due to physical injuries suffered in the terrorist attacks on September 11, 2001.
[§682.407(a)(1); §685.218(a)(1)]

*Eligible victim* means an individual who died or became permanently and totally disabled due to physical injuries suffered in the terrorist attacks on September 11, 2001.
[§682.407(a)(2); §685.218(a)(2)]

*Eligible parent* means a borrower who owes a FFELP PLUS loan incurred on behalf of an eligible public servant or eligible victim or if the parent owes a FFELP Consolidation loan that was used—in whole or in part—to repay a FFELP or FDLP PLUS loan incurred on behalf of an eligible public servant or eligible victim.
[§682.407(a)(3); §685.218(a)(3)]

*Died due to injuries suffered in the terrorist attacks on September 11, 2001,* means the individual was present at the World Trade Center in New York City, New York; at the Pentagon in Virginia; or at the Shanksville, Pennsylvania site at the time of or in the immediate aftermath of the terrorist-related aircraft crashes on September 11, 2001, and the individual died as a direct result of these crashes.
[§682.407(a)(4); §685.218(a)(4)]

*Became permanently and totally disabled due to injuries suffered in the terrorist attacks on September 11, 2001,* means the individual was present at the World Trade Center in New York City, New York; at the Pentagon in Virginia; or at the Shanksville, Pennsylvania site at the time of or in the immediate aftermath of the terrorist-related aircraft crashes on September 11, 2001, and the individual became permanently and totally disabled as a direct result of these crashes.
[§682.407(a)(5); §685.218(a)(5)]

An individual is considered permanently and totally disabled for this discharge if each of the following criteria is met:

- The disability is the result of a physical injury to the individual that was treated by a medical professional within 72 hours of the injury having been sustained or within 72 hours of the individual's rescue.
- The physical injury that caused the disability is verified by contemporaneous medical records created by or at the direction of the medical professional who provided the medical care.
- The individual is unable to work and earn money due to the disability and the disability is expected to continue indefinitely or result in death.

If the physical injuries suffered due to the terrorist-related aircraft crashes did not make the individual permanently and totally disabled at the time of or in the immediate aftermath of the attacks, the individual may be considered to be permanently and totally disabled if the individual's medical condition has deteriorated to the extent that the individual is permanently and totally disabled.
[§682.407(a)(5); §685.218(a)(5)]

*Immediate aftermath* for an eligible victim means the period of time from the aircraft crashes until 12 hours after the crashes. Immediate aftermath for an eligible public servant means the period of time from the aircraft crashes until 96 hours after the crashes.
[§682.407(a)(6); §685.218(a)(5)]

*Present at the World Trade Center in New York City, New York; at the Pentagon in Virginia; or at the Shanksville, Pennsylvania site* means physically present at the time of the terrorist-related aircraft crashes or in the immediate aftermath at any one of the following sites:

- In the buildings or portions of the buildings that were destroyed as a result of the terrorist-related aircraft crashes.

- In any area contiguous to the crash site that was sufficiently close that there was a demonstrable risk of physical harm resulting from the impact of the aircraft or any subsequent fire, explosions, or building collapses. Generally, this includes the immediate area in which the impact occurred, fire occurred, portions of buildings fell, or debris fell upon and injured persons.

- On board American Airlines flights 11 or 77 or United Airlines flights 93 or 175 on September 11, 2001.

[§682.407(a)(7); §685.218(a)(7)]

### Discharge Documentation

A borrower or the borrower's representative must provide the lender with certain documentation in order for the lender to process the loan discharge.

*Documentation for death of an eligible public servant*

Documentation that an eligible public servant died due to physical injuries suffered in the terrorist attacks on September 11, 2001, must include a certification from an authorized official that the individual was a member of the Armed Forces or employed as a police officer, firefighter, or other safety or rescue personnel, and was present at the World Trade Center in New York City, New York; at the Pentagon in Virginia; or at the Shanksville, Pennsylvania site at the time of the terrorist-related aircraft crashes or in the immediate aftermath of these crashes.

In addition, the borrower must provide either of the following:

- Evidence that the individual is included on an official list of the individuals who died in the terrorist attacks.

- If the individual is not included on an official list of the individuals who died in the terrorist attacks, the borrower must provide all of the following documentation:

  - An original or certified copy, or an accurate and complete photocopy, of the original or certified copy of the individual's death certificate. If the individual owed a FFELP, FDLP, or Perkins loan at the time of the terrorist attacks, documentation that the individual's loans were discharged by the lender, the Department, or the institution due to death may be substituted for the death certificate.

  - A certification from a physician or a medical examiner that the individual died due to injuries suffered in the terrorist attacks.

[§682.407(d)(1)-(3); §685.218(d)(1)-(3)]

If the borrower is the spouse or parent of an eligible public servant and has been granted a discharge on another FFELP loan, a FDLP loan, or a Perkins loan because the eligible public servant died due to injuries suffered in the terrorist attacks, documentation of the discharge may be used as an alternative to the documentation required in the preceding paragraph.

[§682.407(d)(6); §685.218(d)(6)]

Under exceptional circumstances and on a case-by-case basis, the determination that an eligible public servant died due to injuries suffered in the terrorist attacks may be based on other reliable documentation approved by the chief executive officer of the guarantor.

[§682.407(d)(8); §685.218(d)(8)]

*Documentation for death of an eligible victim*

Documentation that an eligible victim died due to injuries suffered in the terrorist attacks on September 11, 2001, must include the victim being named on an official list of the individuals who died in the terrorist attacks.

If the eligible victim is not included on an official list of the individuals who died in the terrorist attacks, the borrower must provide all of the following documentation:

- An original or certified copy, or an accurate and complete photocopy, of the original or certified copy of the individual's death certificate. If the individual owed a FFELP, FDLP, or Perkins loan at the time of the terrorist attacks, documentation that the individual's

loans were discharged by the lender, the Department, or the institution due to death may be substituted for the death certificate.

- A certification from a physician or a medical examiner that the individual died due to injuries suffered in the terrorist attacks.

- A certification signed by the borrower that the eligible victim was present at the World Trade Center in New York City, New York; at the Pentagon in Virginia; or at the Shanksville, Pennsylvania site at the time of the terrorist-related aircraft crashes or in the immediate aftermath of these crashes.

[§682.407(d)(4)-(5); §685.218(d)(4)-(5)]

Under exceptional circumstances and on a case-by-case basis, the determination that an eligible victim died due to injuries suffered in the terrorist attacks may be based on other reliable documentation approved by the chief executive officer of the guarantor.
[§682.407(d)(8); §685.218(d)(8)]

*Documentation for a permanently and totally disabled eligible public servant*

Documentation that an eligible public servant became permanently and totally disabled due to physical injuries suffered in the terrorist attacks on September 11, 2001, must include all of the following:

- A certification from an authorized official that the individual was a member of the Armed Forces or employed as a police officer, firefighter, or other safety or rescue personnel, and was present at the World Trade Center in New York City, New York; at the Pentagon in Virginia; or at the Shanksville, Pennsylvania site at the time of the terrorist-related aircraft crashes or in the immediate aftermath of these crashes.

- Copies of contemporaneous medical records created by or at the direction of a medical professional who provided medical care to the individual within 72 hours of the injury having been sustained or within 24 hours of the individual's rescue.
[§682.407(a)(5); §685.218(a)(5)]

- A certification by a physician that the individual became permanently and totally disabled due to physical injuries suffered in the terrorist attacks. The physician must be a doctor of medicine or osteopathy and legally authorized to practice in a state.
[§682.407(e)(1)]

If the borrower is the spouse or parent of an eligible public servant and has been granted a discharge on another FFELP loan, a FDLP loan, or a Perkins loan because the eligible public servant became permanently and totally disabled due to physical injuries suffered in the terrorist attacks, documentation of the discharge may be used as an alternative to the documentation required in the preceding paragraph.
[§682.407(e)(3); §685.218(e)(3)]

*Documentation for a permanently and totally disabled eligible victim*

Documentation that an eligible victim became permanently and totally disabled due to physical injuries suffered in the terrorist attacks must include all of the following:

- A certification signed by the borrower that the eligible victim was present at the World Trade Center in New York City, New York; at the Pentagon in Virginia; or at the Shanksville, Pennsylvania site at the time of the terrorist-related aircraft crashes or in the immediate aftermath of these crashes.

- Copies of contemporaneous medical records created by or at the direction of a medical professional who provided medical care to the individual within 72 hours of the injury having been sustained or within 24 hours of the individual's rescue.
[§682.407(a)(5); §685.218(a)(5)]

- A certification by a physician that the individual became permanently and totally disabled due to physical injuries suffered in the terrorist attacks. The physician must be a doctor of medicine or osteopathy and legally authorized to practice in a state.
[§682.407(e)(1); §685.218(e)(1)]

If the borrower is the spouse or parent of an eligible victim and has been granted a discharge on another FFELP loan, or a FDLP loan because the eligible victim became totally and permanently disabled due to physical injuries suffered in the terrorist attacks, documentation of the discharge may be used as an alternative to the documentation required in the preceding paragraph.
[§682.407(e)(4); §685.218(e)(4)]

*Additional documentation*

A lender or guarantor may require the borrower to submit additional information that it deems necessary to determine the borrower's eligibility for a discharge. [§682.407(f)(1); §685.218(f)(1)]

To establish that the eligible public servant or eligible victim was present at the World Trade Center in New York City, New York; at the Pentagon in Virginia; or at the Shanksville, Pennsylvania site such additional information may include but is not limited to any one of the following:

- Records of employment.
- Contemporaneous records of a federal, state, city, or local government agency.
- An affidavit or declaration of the eligible victim's or eligible public servant's employer.
- A sworn statement (or an unsworn statement complying with 28 U.S.C. 1746) regarding the presence of the eligible public servant or eligible victim at the site. [§682.407(f)(2); §685.218(f)(2)]

To establish that the disability of the eligible public servant or eligible victim is due to physical injuries suffered in the terrorist attacks, such additional information may include but is not limited to any one of the following:

- Contemporaneous medical records of hospitals, clinics, physicians, or other licensed medical personnel.
- Registries maintained by federal, state, or local governments.
- Records of all continuing medical treatment. [§682.407(f)(3); §685.218(f)(3)]

To establish the borrower's relationship to the eligible public servant or eligible victim, such additional information may include but is not limited to any one of the following:

- Copies of relevant legal records including court orders, letters of testamentary or similar documentation.
- Copies of wills, trusts, or other testamentary documents.
- Copies of approved joint Consolidation loan applications or approved FFELP or FDLP PLUS loan applications. [§682.407(f)(4); §685.218(f)(4)]

### Discharge Limitations

Each of the following loans that had an outstanding balance owed on September 11, 2001, are eligible for discharge:

- Federal SLS.
- Federal Stafford.
- Federal PLUS.
- Federal Consolidation.

Federal Consolidation loans incurred to repay FFELP, FDLP, and Perkins loan amounts that were owed on September 11, 2001, are also eligible for discharge. [§682.407(g)(1); §685.218(g)(1)]

Eligibility for a discharge under the provisions applicable to the September 11, 2001, loan discharge *does not* qualify a borrower for a refund of any payments made on the borrower's loan prior to the date the loan was discharged. [§682.407(g)(2)(i); §685.218(g)(2)(i)]

A borrower may apply for a partial discharge of a joint Consolidation loan due to death or total and permanent disability as described in Subsection 13.8.C. If a borrower is granted a partial discharge under those provisions, the borrower may qualify for refund of payments made after the date the borrower died or was certified as totally and permanently disabled by a qualified physician. [§682.407(g)(2)(ii); §685.218(g)(2)(ii)]

A borrower may apply for a discharge of a PLUS loan due to the death of the student for whom the borrower received the PLUS loan under the provisions described in Subsections 13.8.C and 13.8.G, respectively. If the borrower is granted a discharge under these provisions, the borrower may qualify for a refund of payments in accordance with those provisions. [§682.407(g)(2)(iii); §685.218(g)(2)(iii)]

A determination by a lender or a guarantor that an eligible public servant or eligible victim became permanently and totally disabled due to physical injuries suffered in the terrorist attacks for purposes of this discharge does not qualify the eligible public servant or the eligible victim for

a discharge based on total and permanent disability as described under Subsection 13.8.G.
[§682.407(g)(3); §685.218(g)(3)]

The spouse of an eligible public servant or eligible victim may not receive a September 11, 2001, loan discharge if the eligible public servant or eligible victim has been identified as a participant or conspirator in the terrorist-related aircraft crashes that occurred on September 11, 2001. Further, an eligible parent may not receive a discharge on a FFELP PLUS loan or a Consolidation loan that was used to repay a FFELP or FDLP PLUS loan incurred on behalf of an individual who has been identified as a participant or conspirator in the related aircraft crashes on September 11, 2001.
[§682.407(g)(4); §685.218(g)(4)]

### Suspending Collections

When a lender receives information from a borrower or the borrower's representative that the borrower claims to qualify for a discharge, the lender must suspend collection activity on the borrower's eligible loan(s). The lender must advise the borrower, or the borrower's representative, to submit a Loan Discharge Application: Spouses and Parents of September 11, 2001, Victims form and all required documentation.
[§682.407(c)(2); §685.218(c)(2)]

If the lender determines that the borrower does not qualify for a discharge, or does not receive the required documentation within 60 days of the notification that he or she claims to qualify for the discharge, the lender must resume collection and shall be deemed to have exercised forbearance of payment of both principal and interest from the date of the borrower's notification. The lender may capitalize any interest accrued and not paid during this period.
[§682.407(c)(3); §685.218(c)(3)]

### Processing an Approved Discharge

If a lender determines that the borrower qualifies for a discharge, the lender must file a discharge claim within 60 days of the date that the lender determines that the borrower qualifies for a discharge.
[§682.407(c)(5)]

For a September 11, 2001, discharge claim, any failure by the lender to satisfy due diligence requirements prior to the filing of the claim that would have resulted in the loss of reinsurance on the loan in the event of default are waived, provided the loan was held by an eligible loan holder at all times.
[§682.407(c)(12)]

*Claim File Documentation*

The lender must provide the guarantor with all of the following claim documentation:

- The application, if a separate loan application was provided to the lender.

- The completed loan discharge form and all accompanying documentation supporting the discharge request that formed the basis for the determination that the borrower qualifies for a discharge.
  [§682.407(c)(4)]

The guarantor will review a discharge claim promptly. If the guarantor determines that the borrower does not qualify for a discharge, the guarantor must return the claim to the lender with an explanation of the basis for the guarantor's denial of the claim. Upon receipt of the returned claim, the lender must notify the borrower that the application for the discharge has been denied, provide the basis for the denial, and inform the borrower that the lender will resume collection on the loan. The lender is considered to have exercised forbearance until the next payment due date. The lender may capitalize any interest accrued and not paid during the forbearance period.
[§682.407(c)(7)]

If the guarantor determines that the borrower qualifies for a discharge, the guarantor will pay the claim no later than 90 days after the claim was received by the guarantor.
[§682.407(c)(8)]

### Denying the Discharge

If the lender determines that the borrower does not qualify for a discharge, or the lender does not receive the completed discharge request form from the borrower within 60 days of the borrower or borrower's representative notifying the lender that the borrower claims to qualify for a discharge, the lender shall resume collection and shall be deemed to have exercised forbearance of payment of both principal and interest from the date the lender was notified.

The lender must notify the borrower that the discharge has been denied, provide the basis for the denial, and inform the borrower that the lender will resume collection on the loan.

The lender may capitalize any interest accrued and not paid during this period.
[§682.407(c)(3); §685.218(c)(3)]

### Claim Payment

The claim payment amount includes the sum of the remaining principal balance and interest accrued on the loan, unpaid collection costs incurred by the lender and applied to the borrower's account within 30 days of the date those costs were actually incurred, and unpaid interest up to the date the lender should have filed the claim.

In the case of a partial discharge of a Consolidation loan, the claim payment includes the amount specified in the preceding paragraph for the portion of the Consolidation loan attributable to the eligible victim or eligible public servant.
[§682.407(c)(9)]

The amount payable on an approved claim includes the unpaid interest that accrues during each of the following periods:

- During the period before the claim is filed, not to exceed 60 days from the date the lender determines that the borrower qualifies for a discharge.
- During a period not to exceed 30 days following the date the lender receives a claim returned by the guarantor for additional documentation necessary for the claim to be approved by the guarantor.
- During the period required by the guarantor to approve the claim and to authorize payment or to return the claim to the lender for additional documentation, not to exceed 90 days.
  [§682.407(c)(10)]

### Notifying the Borrower and Any Endorser

After being notified that the guarantor has paid a discharge claim, the lender must notify the borrower that the loan has been discharged, or partially discharged in the case of a Consolidation loan. Except in the case of a partially discharged Consolidation loan, the lender must return to the sender any payments received by the lender after the date the guarantor paid the discharge claim and notify the borrower and any endorser that there is no further obligation to repay the loan(s).
[§682.407(c)(11); §685.218(c)(5)]

## 13.8.G
## Total and Permanent Disability

*Note: See Section 5.5 for more information about eligibility requirements that a borrower must meet in order for the borrower to receive a new loan after he or she has received a loan discharge due to total and permanent disability.*

A borrower is not eligible for discharge of a loan that has already been paid in full when the loan holder receives the borrower's total and permanent disability loan discharge request.

*Note:* If a loan is paid in full through involuntary payments within 30 days of a guarantor's receipt of a total and permanent disability loan discharge application, the guarantor, after contacting the Department's Total and Permanent Disability Servicer, may assign the loan to the Department. The Department may discharge some part of the loan balance in such cases.

A total and permanent disability discharge request based on a determination by the U.S. Department of Veterans Affairs (VA) has different eligibility criteria than one that is not based on a VA determination, as outlined below.

### Discharge Requests Based on VA Determinations

A borrower is eligible for loan discharge due to total and permanent disability if the borrower provides documentation from the VA showing that the VA has determined the borrower to be unemployable due to a service-connected condition, and this documentation is acceptable to the U.S. Department of Education (the Department). The borrower is not required to provide additional documentation to support the discharge; however, the borrower is required to complete Sections 1 and 3 of the Discharge Application: Total and Permanent Disability.

If the lender believes the borrower qualifies for discharge based on its review of the VA disability documentation, the lender must forward the loan discharge application and VA documentation to the guarantor for review.

If the guarantor determines that the borrower meets the criteria for discharge based on its review of the VA documentation, the guarantor must forward the VA documentation and the loan discharge application to the Department for determination of the borrower's eligibility for loan discharge. If the guarantor determines, based on its review of the VA documentation, that the borrower is not

eligible for discharge, the guarantor will return the loan discharge application and VA documentation to the lender with an explanation of the reason for the denial.

If either the lender or the guarantor determines that the documentation from the VA does not indicate that the borrower is eligible for discharge, the lender must notify the borrower that the discharge request has been denied, provide the reason for the denial, and advise the borrower that collection activities will resume. The lender also must inform the borrower that he or she may reapply for a regular total and permanent disability discharge if the documentation from the VA indicates that the veteran may qualify under regular disability provisions. The lender may treat the loan as if it was in forbearance during the evaluation process, and capitalize the interest.

If the Department grants a final discharge based on a VA determination, it will notify the guarantor of the discharge. The guarantor will pay the disability claim and notify the lender. The lender will return any loan payments made on or after the effective date of the VA determination (that the borrower is unemployable due to a service-connected condition). The borrower is not subject to the 3-year conditional period or post-discharge monitoring period. Title IV loans received prior to the effective date of the VA determination, including the underlying loans in a Consolidation loan, are eligible for discharge, as well as Title IV loans received on or after the effective date of the VA determination.
[§682.402(c)(8); §685.213(c)(2); DCL GEN-09-07/FP-09-05; Discharge Application: Total and Permanent Disability]

#### Discharge Requests Based on Regular Determinations

If any party to a loan claims to be totally and permanently disabled, the lender must request that party to provide certification of the disability from a physician who is a doctor of medicine or osteopathy and is legally authorized to practice in a state. An eligible party includes any one of the following:

- A borrower.
- One of two comakers on a PLUS or Consolidation loan.
- An endorser, if the lender is pursuing collection activities against the endorser.

The borrower's, comaker's, or endorser's representative may provide the physician's certification if the borrower, comaker, or endorser is unable to do so. The borrower, comaker, or endorser, or his or her representative, must submit a completed Discharge Application: Total and Permanent Disability or other form(s) approved by the Department. The physician's certification must state that the borrower, comaker, or endorser is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that meets any one of the following criteria:

- Can be expected to result in death.
- Has lasted for a continuous period of not less than 60 months.
- Is expected to last for a continuous period of not less than 60 months.

The borrower must submit the certification to the lender within 90 days of the date that the physician completed and certified the discharge application. If the borrower submits the discharge application after this 90-day time frame, the borrower must have the physician complete a new application and must submit the new application to the lender within 90 days of the physician's new certification. [§682.200(b); §682.402(c)(2); §685.213(b)(1); *Federal Register* dated July 23, 2009, p. 36559]

*Suspending Collection*

If a lender receives information indicating that a borrower or one of two comakers on a PLUS or Consolidation loan has become totally and permanently disabled, the lender must continue collection activities until it receives the physician's certification—or until it receives a written request from the physician requesting additional time to determine whether the borrower or comaker is totally and permanently disabled. If the lender receives reliable information indicating that an endorser has become totally and permanently disabled, the lender may not apply an administrative forbearance to the PLUS loan. [§682.402(c)(5)(i)]

If the lender receives a written request from the borrower's or comaker'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 lender determines that the borrower or comaker does not meet the definition of totally and permanently disabled, or if the lender does not receive the physician's certification of total and permanent disability within 60 days of the receipt of the physician's written request for additional time, the lender must resume collection activity and 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 written request for additional time, see Subsection 11.21.R.
[§682.402(c)(5)]

For a comade Consolidation loan on which one comaker's loan discharge application will not result in the discharge of the entire loan balance, the lender must continue to service the portion of the loan that is not eligible for loan discharge. The lender must ensure that when the comaker who is claiming to be totally and permanently disabled resumes repayment on the remaining balance of the loan, the loan itself has not become delinquent or more delinquent during the conditional discharge period. The lender may apply an administrative forbearance to the entire Consolidation loan for the conditional discharge period, after first exploring with the non-disabled comaker any other available options, such as alternative repayment agreements, deferment, discretionary forbearance, or reduced-payment forbearance.

For a comade PLUS loan on which one comaker is applying for loan discharge, the lender must continue to collect on the full balance of the loan from the non-disabled comaker. The lender must ensure that the loan status does not deteriorate during the conditional discharge period, and should work with the non-disabled comaker to discuss deferment options or to negotiate forbearance terms. The lender may apply an administrative forbearance to the entire loan balance if the non-disabled comaker is not eligible for other repayment options or does not choose to defer or forbear the loan. The administrative forbearance may be applied only for the time period that the nondisabled comaker is solely responsible for the loan's repayment and may not begin earlier than the date the loan holder receives the disabled comaker's loan discharge application, or the notification from the guarantor that a loan discharge application was submitted to the guarantor, whichever is earlier. The administrative forbearance may not end later than the date the lender receives notification of the final discharge determination.

For a PLUS loan on which the endorser is applying for loan discharge, the lender may not collect from the endorser but must continue to collect the entire loan amount from the borrower.

*General Requirements for Total and Permanent Disability Loan Discharge*

If a doctor of medicine or osteopathy, legally authorized to practice in a state, certifies that the borrower, the comaker, or the endorser on a PLUS loan is totally and permanently disabled, the borrower's, comaker's or endorser's obligation to repay all or a portion of the loan may be discharged. If a comaker on a joint Consolidation loan is determined to be totally and permanently disabled, the disabled comaker's underlying loans are discharged but the disabled comaker and the non-disabled comaker both remain jointly and severally liable for repayment of the balance of the loan. For a comade PLUS loan, if one comaker is determined to be totally and permanently disabled, that comaker's obligation on the loan is discharged and the non-disabled comaker assumes responsibility for repayment of the entire loan balance. If the lender has begun collection activities with respect to the endorser's obligation on a PLUS loan, and if the endorser is determined to be totally and permanently disabled, the endorser's obligation on the loan is discharged and the primary borrower assumes sole responsibility for repayment of the entire loan balance.
[§682.402(a)(2) and (3)]

For these purposes, a borrower, comaker, or endorser is considered totally and permanently disabled if he or she is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that meets any one of the following criteria:

- Can be expected to result in death.
- Has lasted for a continuous period of not less than 60 months.
- Is expected to last for a continuous period of not less than 60 months.

Substantial gainful activity is defined as a level of work performed for pay or profit that involves doing significant physical or mental activities, or combination of both. "For profit" is intended to cover self-employed individuals who are not paid by an employer. It does not refer to income from sources other than employment. Non-employment income will not be considered when determining whether a borrower is capable of substantial gainful activity.
[§682.200(b); *Federal Register* dated July 23, 2009, p. 36559]

If a borrower, comaker, or endorser receives a new TEACH grant or a new Title IV loan (with the exception of a Consolidation loan that does not include any loans that are in a conditional discharge status or post-discharge monitoring period) during the 3-year conditional discharge period or the 3-year post-discharge monitoring period, as applicable, the borrower, comaker, or endorser is not eligible for discharge on the loan on which he or she is a signatory or any loan made prior to that date. (See explanations of the terms "conditional discharge status" and "post-discharge monitoring period" later in this subsection under the subheading "Discharge Based on a Determination of Total and Permanent Disability.")

The lender must review its records for any new loan(s) or disbursements of prior loans made to the borrower, comaker, or endorser after the date the physician certified the discharge application stating that he or she is totally and permanently disabled. If the lender's records indicate (or the lender is otherwise aware) that a new loan(s) was made during the 3-year conditional discharge period or the 3-year post-discharge monitoring period, the lender must deny the discharge and inform the borrower, comaker, or endorser. If any FFELP loan was certified prior to the date the physician certified the discharge application, any proceeds of the loan that are disbursed after the date of the physician's certification must be returned to the holder within 120 days of disbursement or the lender must deny the discharge and inform the borrower, comaker, or endorser. For information regarding a borrower's eligibility for a new loan(s) after the conditional period, see Section 5.5.
[§682.402(c)(45)(B) and (C); §685.213(b)(4)(i)(B) and (C)]

If a borrower, comaker, or endorser received a TEACH grant or Title IV loan prior to the date the physician certified the borrower's discharge application and a disbursement of that loan or grant is made during the period from the date of the physician's certification until the date the Department grants a discharge, the Department will suspend processing of the borrower's loan discharge request until the borrower ensures that the full amount of the disbursement has been returned to the loan holder or to the Department, as applicable.
[§682.402(c)(4); §685.213(b)(3)]

The Department may require the borrower to submit additional medical evidence if it determines that the borrower's application does not conclusively prove that the borrower is totally and permanently disabled. As part of the Department's review of the borrower's discharge application, the Department may arrange for an additional review of the borrower's condition by an independent physician at no expense to the borrower.
[§682.402(c)(3)(iv); §685.213(b)(2)]

*Discharge When Guarantee Is Lost*

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, I.E.2]

*Discharge Based on a Determination of Total and Permanent Disability*

Total and permanent disability loan discharge determinations made by the lender on or after July 1, 2002, and subsequently paid as a claim by the guarantor, may be permanently assigned to the Department. The Department then determines if the certification and information provided by the borrower, comaker, or endorser support the conclusion that he or she meets the criteria for a total and permanent disability loan discharge. If the Department determines that the certification and information provided by the borrower, comaker, or endorser do not support the conclusion that he or she meets the criteria for a total and permanent disability loan discharge, the Department notifies the borrower, comaker, or endorser that the application for a total and permanent disability loan discharge has been denied and that the loan is due and payable under the terms of the promissory note.
[§682.402(c)(3)(iii); §685.213(b)(2)(iii)]

For a total and permanent disability loan discharge application received on or after July 1, 2002, through June 30, 2010, a borrower who meets certain eligibility criteria receives an initial disability determination and is placed in a 3-year conditional discharge status. For a total and permanent disability loan discharge application received on or after July 1, 2010, a borrower who meets certain eligibility criteria receives a loan discharge and is placed in a 3-year post-discharge monitoring period.

1. Conditional Discharge Status

If the Department makes an initial determination that the borrower, comaker, or endorser is totally and permanently disabled, the Department sends notification to the borrower, comaker, or endorser that the loan—or the comaker's or endorser's obligation on the loan—is in a conditionally discharged status and that the conditional discharge period

will last for up to 3 years after the date the physician completed and certified the discharge application. The Department's notification identifies the following conditions that apply during the 3-year conditional discharge period:

- The disabled borrower, comaker, or endorser is not required to make any payments on the loan.
- The disabled borrower, comaker, or endorser is not considered delinquent or in default on the loan, unless he or she was delinquent or in default at the time the conditional discharge was granted.
- The disabled borrower, comaker, or endorser must promptly notify the Department of any changes in address or phone number.
- The disabled borrower, comaker, or endorser must notify the Department if his or her annual earnings from employment exceed 100% of the poverty line for a family of two.
- The disabled borrower, comaker, or endorser must provide the Department, upon request, with additional documentation or information related to his or her eligibility for a total and permanent disability loan discharge.
  [§682.402(c)(4)(i)(C)(ii)(E); §685.213(b)(5)(i) – (iii)]
- The disabled borrower, comaker, or endorser must provide the Department, upon request, with additional medical evidence if the Department determines that the borrower's, comaker's, or endorser's application does not conclusively prove that the borrower, comaker, or endorser is disabled. As part of this review or at any time through the end of the conditional discharge period, the Department may arrange for an additional review of the borrower's, comaker's, or endorser's condition by an independent physician at no expense to the applicant.
  [§682.402(c)(4)(v); §685.213(b)(2)(iv)]
- The disabled borrower, comaker, or endorser must not receive a new TEACH grant or a new loan under the Federal Perkins Loan Program, the FFELP, or the Federal Direct Loan Program, except for a FFELP or Direct Consolidation loan that does not include any loans that are in a conditional discharge status.
  [§682.402(c)(4)(i)(B); §685.213(b)(4)(i)(B)]
- If any FFELP loan was certified prior to the date the physician certified the discharge application, any proceeds of the loan that are disbursed after the date of the physician's certification must be returned to the holder within 120 days of the disbursement date(s) to preserve the borrower's discharge eligibility.
  [§682.402(c)(4)(i)(C); §685.213(b)(4)(i)(C)]
- If the borrower satisfies the criteria for a total and permanent disability loan discharge during and at the end of the conditional discharge period, the Department does both of the following:
  - Discharges the balance of the loan.
  - Returns to the person who made payments any that were received after the date that the physician completed and certified the borrower's loan discharge application.

The Department also notifies the disabled borrower, comaker, or endorser, for those loans assigned to the Department, that if at any time during the 3-year conditional discharge period he or she does not continue to meet the eligibility requirements for a total and permanent disability discharge, the Department or the loan holder, as applicable, will resume collection activity on the loan but will not require the borrower to pay any interest that accrued on the loan from the date of the initial determination of total and permanent disability through the end of the conditional discharge period.
[§682.402(c)(4)(ii)(C)(ii)(E); §685.213(b)(4)(ii)(B)]

2. Post-Discharge Monitoring Period

If the Department makes a determination that the borrower, comaker, or endorser is totally and permanently disabled, the Department notifies the borrower, comaker, or endorser that the loan—or the comaker's or endorser's obligation on the loan—is discharged and that the loan is placed in a post-discharge monitoring period. The post-discharge monitoring period will last for 3 years after the date the Department grants the discharge. The Department's notification identifies the following conditions that apply during the 3-year post-discharge monitoring period:

- The disabled borrower, comaker, or endorser must promptly notify the Department of any changes in his or her address or phone number.

- The disabled borrower, comaker, or endorser must promptly notify the Department if his or her annual earnings from employment exceed 100% of the poverty line for a family of two.

- The disabled borrower, comaker, or endorser must provide the Department, upon request, with documentation of his or her annual earnings from employment.

- The Department reinstates the borrower's, comaker's, or endorser's obligation to repay a loan that was discharged if any of the following apply to the disabled borrower, comaker, or endorser:

  – He or she has annual earnings from employment that exceed 100% of the poverty line for a family of two.

  – He or she receives a new TEACH grant or a new Title IV loan, except for a Federal or Direct Consolidation loan that includes loans that were not discharged.

  – He or she fails to ensure that the full amount of any disbursement of a Title IV loan or TEACH grant received prior to the discharge date that is made during the 3-year period following the discharge date is returned to the loan holder or to the Department, as applicable, within 120 days of the disbursement date.

[§682.402(c)(5)(i)(A) – (C); §682.402(c)(6); §685.213(b)(4)(i)(A) – (C); §685.213(b)(5)]

*NSLDS Reporting during the Conditional and Post-discharge Period for Comade Loans*

In cases where a comaker of a joint Consolidation or PLUS loan has applied for a total and permanent disability loan discharge, the lender must ensure accurate reporting to the guarantor for NSLDS purposes. The lender must report the correct status of the non-dischargeable portion to the guarantor for subsequent reporting to the NSLDS in a timely manner. The NSLDS currently reports joint Consolidation loans and comade PLUS loans under one primary borrower only. However, to ensure proper reporting during the conditional or post-discharge period, as applicable, the lender should report the non-dischargeable portion under the non-disabled borrower's name and Social Security number (SSN) to the guarantor. If the borrower on record with the guarantor and the NSLDS is the disabled borrower, the guarantor's records and the NSLDS must be updated to reflect the non-disabled borrower as the borrower of record. If the discharge is denied, the lender may resume reporting the full balance of the loan under the borrower currently being reported. If a final discharge is granted, the lender continues to report the non-discharged portion of the Consolidation loan under the non-disabled borrower's name and SSN.

*Total and Permanent Disability Loan Discharge Payment*

Federal regulations require a guarantor to determine if the borrower, comaker, or endorser meets the eligibility criteria for a total and permanent disability (TPD) discharge. If the guarantor determines that the borrower, comaker, or endorser meets the criteria, the guarantor will take the following action, as appropriate:

- For a loan made solely to the borrower, or a PLUS loan with an endorser where the borrower is the party applying for the loan discharge, the guarantor will pay the lender the remaining balance on the loan and assign the loan to the Department.

- If the borrower satisfies the criteria for a total and permanent disability loan discharge, the Department discharges the balance of the loan and returns to the person who made the payments any that were received after the date that the physician completed and certified the borrower's loan discharge application. The discharge and return of payments are made before the loan enters the post-discharge monitoring period. [§682.402(c)(3)(ii); §685.213(b)(2)(ii)]

- For a comade (spousal) Consolidation loan, the guarantor will pay the lender the amount that represents the disabled comaker's portion of the Consolidation loan. The guarantor will forward the disability documentation to the Department for determination of the final discharge eligibility.

- For a comade PLUS loan or a PLUS loan with an endorser where the endorser is the party applying for the loan discharge, the guarantor will forward the documentation to the Department for a determination of final discharge eligibility. The guarantor will not remit a claim payment to the lender.

*Timely Filing Deadline for Total and Permanent Disability Claims*

A lender must file a disability claim within 60 days of receiving a complete loan discharge application or other form(s) approved by the Department. 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)]

*Notification Requirements after Claim Filing or Filing of a Partial Discharge Request*

After a lender receives payment of a total and permanent disability claim, the lender must notify the borrower that the loan will be assigned to the Department for determination of discharge eligibility and no payments are due on the loan. The notification must also inform the borrower that, to remain eligible for final discharge, he or she cannot earn income from employment exceeding the poverty line for a family of two, receive any new Title IV loans (with the exception of a FFELP or Direct Consolidation loan that does not include loans to be discharged), and must ensure the full amount of any Title IV loan made on or after the date the physician completed and certified the discharge application is returned to the holder within 120 days of the disbursement date.
[§682.402(c)(5)(vi)]

After the lender receives payment of a total and permanent disability claim for a loan made solely to a single borrower or for a portion of a Consolidation loan attributable to a comaker, the lender must notify the borrower or comaker that the loan or a portion of the loan will be assigned to the Department for determination of eligibility for a total and permanent disability loan discharge. After the lender receives notification from the guarantor that the loan discharge application has been forwarded to the Department for a determination of total and permanent discharge eligibility, the lender must notify the PLUS loan borrower that the comaker's or endorser's discharge application has been forwarded to the Department.
[§682.402(c)(5)(vi)]

If the guarantor determines that the borrower, comaker, or endorser is not eligible for loan discharge, the guarantor will notify the lender with an explanation of the reason for the denial. The lender must notify the borrower, comaker, or endorser that the application for a disability discharge has been denied, provide the basis for the denial, and inform the borrower, comaker, or endorser that the lender will resume collection activities on the loan.
[§682.402(c)(5)(v)]

*Resuming Loan Servicing on Comade or Endorsed Loans*

If the Department grants a final discharge to a comaker for a portion of a Consolidation loan, the lender must resume collection activities on the remaining loan balance, collecting that balance from both the disabled and non-disabled spouses. If the Department denies the final loan discharge, the lender must refund to the guarantor the amount of the discharge payment previously received and return the loan to repayment with the corrected loan balance. No interest accrues on the disabled comaker's portion of the loan during the conditional discharge period.

If the Department grants a final discharge to a comaker of a PLUS loan, there is no reduction of the loan's principal and the lender must resume loan collection activities on the full loan amount. The disabled comaker's obligation on the loan is discharged and the lender may bill only the non-disabled comaker. If the Department denies the final discharge, the lender must resume collection activities with both comakers.

If the Department grants a final discharge for a PLUS loan endorser, the endorser's obligation on the loan is discharged and the primary borrower assumes sole responsibility for repayment of the entire loan balance. If the Department denies the final discharge, the lender may resume billing both the borrower and endorser, as appropriate.

*Treatment of Payments*

If the lender receives a payment from or on behalf of the borrower after the date the physician completed and certified the discharge application but before the lender receives the claim payment, the lender must hold the payment. After the lender receives the claim payment, the lender must forward the payment to the guarantor.
[§682.402(c)(5)(vi)(B)(3); §685.213(b)(2)(ii)]

# 13.8.H
# Unpaid Refund

The Higher Education Act provides relief for borrowers who are entitled to, but did not receive, refunds from their respective schools. Borrowers who meet the criteria outlined in this subsection may be eligible to have a loan discharged, in full or in part.

To qualify for an unpaid refund loan discharge, a borrower must complete, certify, and submit to his or her lender or guarantor a Loan Discharge Application: Unpaid Refund which includes a sworn statement (notarization is not required), made under penalty of perjury, that declares the following:

- That the borrower (or the student for whom a parent obtained a PLUS loan) received any part of the proceeds of the FFELP loan on or after January 1, 1986, to attend school.
  [§682.402(l)(4)(i)(A); §685.212(f); §685.216(c)(1)(i)(A)]

- That the borrower (or the student), within a time frame that entitled the borrower to a refund, withdrew from, was terminated from, or did not attend the school.
  [§682.402(l)(4)(i)(B); §685.216(c)(1)(i)(B)]

- That the borrower (or the student) did not receive the benefit of a refund to which the borrower was entitled either from the school or from a third party, such as a holder of a performance bond or a tuition recovery program.
  [§682.402(l)(4)(i)(C); §685.216(c)(1)(i)(C)]

- Whether the borrower has any other discharge application pending for this loan, in full or in part.
  [§682.402(l)(4)(ii); §685.216(c)(1)(ii)]

- That the borrower agrees to provide, upon request by the Department or the Department's designee other documentation reasonably available to the borrower demonstrating that the borrower meets the qualifications for an unpaid refund discharge.
  [§682.402(l)(4)(iii)(A); §685.216(c)(1)(iii)(A)]

- That the borrower agrees to cooperate with the Department or the Department's designee in enforcement actions and to transfer to the Department any right to recovery against a third party.
  [§682.402(l)(4)(iii)(B); §685.216(c)(1)(iii)(B)]

- That the information provided on the discharge application is true and accurate.

The guarantor may, with the Department's consent, grant an unpaid refund discharge without a borrower's discharge application if the guarantor determines, based on information in the guarantor's possession, that the borrower qualifies for a discharge.
[§682.402(l)(5)(iv); §685.216(c)(2)]

When a borrower receives a discharge under the unpaid refund provisions, the discharge amount will include other costs associated with the portion of the loan discharged (including accrued interest, late charges, collection costs, origination fees, and guarantee fees). If the total discharge amount exceeds the current outstanding balance of the loan, the lender must refund that excess amount to the borrower.
[HEA §437(c); §682.402(l)(3); §685.216(b)(1)]

### Suspending Collection Activity

If a guarantor or the Department notifies a lender, or the lender receives reliable information from another source (such as a telephone call or letter from the borrower) that a school did not pay a required refund, the lender must provide the borrower an unpaid refund loan discharge application and an explanation of the qualifications and procedures for obtaining a discharge. The lender also must immediately suspend all collection activity and grant an administrative forbearance on any affected loan for at least 60 days, or until the lender receives the guarantor's determination, whichever is earlier. If an unpaid refund loan discharge may be applicable to any underlying loan(s) of a Consolidation loan, the lender must suspend collection activity on the entire Consolidation loan. See Subsection 11.21.S for more information about granting administrative forbearance.
[§682.402(l)(5); §685.216(e)(1)]

In some cases, the guarantor will send the application to the lender. The lender will then forward the application to the borrower. In other cases, the guarantor may mail the application directly to potentially eligible borrowers and notify the lender of this action. In such cases, the guarantor also may have the borrower return the application directly to the guarantor for a determination of eligibility. The guarantor will notify the lender of the borrower's eligibility or ineligibility for discharge of the loan.

If the lender receives the borrower's completed discharge application within 60 days of the date on which the lender sent the application to the borrower, the lender must extend its suspension of collection activity until the date the lender

receives a response from the guarantor denying the discharge or paying the discharge. If the discharge is denied, the lender must resume collection activity and grant a forbearance for the period during which collection activity was suspended. Any interest accrued and not paid during this period may be capitalized.
[§682.402(l)(5)(ii); §685.216(e)(4)]

If the lender does not receive the borrower's completed discharge application within 60 days of the date on which the lender sent the application to the borrower, the lender must resume collection activity and grant a forbearance for the period when collection activity was suspended. Any interest accrued and not paid during this period may be capitalized.
[§682.402(l)(5)(iii); §685.216(e)(2)]

### Processing the Discharge Application

When the borrower submits the discharge application to the lender, the lender must review the application to determine whether it appears to be complete. If the application appears to be complete, the lender must provide the application and all pertinent information related to the borrower's qualification for discharge to the guarantor, including the borrower's (or student's, as applicable) last date of attendance, if it is available. See Subsection 9.5.C for school requirements.
[§682.402(l)(5)(ii)]

If the lender determines that information contained in its files conflicts with the information provided by the borrower, the lender must notify the guarantor. The guarantor will use the most reliable information available to determine eligibility and the appropriate payment of the refund amount.
[§682.402(l)(5)(v)]

### Processing an Approved Discharge

If a school has closed, the guarantor will discharge a borrower's (and any endorser's) obligation to repay an amount equal to the amount of the unpaid refund, including any accrued interest and other charges (late charges, collection costs, origination fees, and guarantee fees) associated with the unpaid refund that should have been made by the school.
[§682.402(l)(1); §682.402(n) and (o); §685.216(a)(1); §685.216(d)(1)]

If a school remains open, the guarantor will discharge a borrower's (and any endorser's) obligation to repay an amount equal to the amount of the unpaid refund, including any accrued interest and other charges (late charges, collection costs, origination fees, and guarantee fees) associated with the unpaid refund that should have been made by the school, if both of the following criteria are met:

- The borrower (or the student) has ceased to attend the school that owes the refund.

- The guarantor receives documentation regarding the refund, and the borrower and the guarantor have been unable to resolve the unpaid refund with the school within 120 days from the date the guarantor receives a completed discharge application. See Subsection 9.5.C for school requirements.
  [§682.402(l)(2); §682.402(n), (o), and (p); §685.216(a)(2)(i); §685.216(d)(1)]

The lender or guarantor must ensure that the discharge is reported to all nationwide consumer reporting agencies that the lender or guarantor had previously reported information on the loan, such that any adverse credit history associated with the amount discharged is removed.
[§682.402(l)(3)(ii); §685.216(b)(2)]

If the discharge results in a paid-in-full status on the loan and the lender subsequently receives a payment on that loan, the lender must promptly return those funds to the sender. At the same time, the lender must notify the borrower or the borrower's representative that there is no further obligation to repay the loan. If the borrower or the borrower's representative continues to send payments after the notice is given, all of those payments must be forwarded to the Department. In the case of a tuition recovery fund where the sender is required to make payment, those payments must also be forwarded to the Department. If the discharge does not result in a paid-in-full status, any payments received must be applied to the remaining debt.
[§682.402(q)]

### Denying the Discharge

If the guarantor denies an unpaid refund loan discharge, the guarantor or the lender must notify the borrower in writing, within 30 days of the guarantor's determination, of the reason for the determination and of the borrower's right to request a review of the determination. If the guarantor notifies the borrower, the guarantor will inform the lender.
[§682.402(l)(5)(vii)(A)]

The lender must resume collection activities and grant a forbearance for the period when collection activities were suspended. Any interest accrued and not paid during this period may be capitalized.
[§682.402(l)(5)(vii)(B); §685.216(e)(4)]

If the borrower later submits additional supporting documentation that was not considered in any prior determination, the guarantor will notify the lender to suspend collection activities until the date the lender receives a response from the guarantor either denying the discharge or paying the unpaid refund amount. The guarantor will review the additional documentation and make a determination of the borrower's eligibility for discharge within 30 days of receiving the additional documentation.

If the guarantor upholds its decision to deny the discharge, the guarantor or the lender must again notify the borrower in writing, within 30 days of the determination, of the reason for the determination and of the borrower's right to request a review of the determination. The lender must again resume collection activities and grant a forbearance for the period when collection activities were suspended. Any interest accrued and not paid during this period may be capitalized.
[§682.402(l)(5)(vii); §685.216(e)(4)]

## Timely Filing Deadlines for Claims and Discharges* — Figure 13-4

**Default Claim** (Subsection 13.6.A)

***Loans with monthly installments:***

- On or after the 271st day of delinquency but no later than the 360th day of delinquency.

***Loans with installments less frequent than monthly:***

- On or after the 331st day of delinquency but no later than the 420th day of delinquency.

**Ineligible Borrower Claim** (Subsection 13.6.B)

On or after the 31st day and no later than the 120th day after the date on which the final demand letter is mailed to the borrower.

**Bankruptcy Discharge** (Subsection 13.8.A)

- For filing a bankruptcy claim and proof of claim, the earlier of:
  - Within 30 days after the lender's receipt of Notice of the First Meeting of Creditors, or other confirmation issued by the debtor's attorney or the bankruptcy court.
  - Within 30 days after receiving the guarantor's instruction to file a bankruptcy claim.
- In response to a borrower's filing of an undue hardship petition (adversary complaint), the earlier of:
  - Within 15 days of receiving the petition.
  - Within 15 days of the date on which the guarantor instructs the lender to file a bankruptcy claim.
- In response to the lender's receipt of an extension from the bankruptcy court regarding the undue hardship petition (adversary complaint), the later of:
  - 25 days before the expiration of any extension received.
  - Within 15 days of the date that the guarantor instructs the lender to file a bankruptcy claim.
- If a borrower defaults and then files a bankruptcy petition, the earlier of:
  - Within 90 days of receiving notification of the bankruptcy's conclusion or reversal.
  - The 360th day of delinquency.

**Closed School or False Certification Discharge** (Subsections 13.8.B and 13.8.D)

- Within 60 days of receiving a completed request from the borrower, or
- If the guarantor receives a request directly from the borrower, within 60 days of the guarantor's instruction to file a claim.

**Death Discharge** (Subsection 13.8.C)

Within 60 days of receiving an original or certified copy, or an accurate and complete photocopy of the original or certified copy, of the death certificate. Within 60 days of redetermining that a lender had a photocopy of a death certificate in the borrower's file for an account that was never submitted as a death claim or was denied as a death claim because, at the time, copies were not acceptable proof of the borrower's death.

**Spouses and Parents of Victims of September 11, 2001** (Subsection 13.8.F)

Within 60 days of the lender's determination that the borrower qualifies for discharge.

**Total and Permanent Disability Discharge** (Subsection 13.8.G)

Within 60 days of receiving a complete loan discharge application or other form(s) approved by the Department.

**Unpaid Refund Discharge** (Subsection 13.8.H)

Once the lender determines that the borrower's discharge request is complete, it must send the completed request and other required information to the guarantor.

* See each referenced subsection for the comprehensive requirements applicable to each type of claim or discharge.

# 13.9 Forgiveness

Loan forgiveness is the release of a borrower's or any comaker's, as applicable, obligation to repay his or her loan, either in whole or in part. Congress has authorized programs that provide loan forgiveness, as a result of public service, to qualified FFELP borrowers. These programs and their corresponding borrower eligibility criteria are outlined in Subsections 13.9.A and 13.9.B. Subsection 13.9.C provides eligibility criteria regarding loan repayment for civil legal assistance attorneys. Subsection 13.9.D outlines eligibility criteria and lender activities with regard to loan forgiveness under income-based repayment (IBR).
[§682.215(f); §685.221]

## 13.9.A Teacher Loan Forgiveness Program

The Teacher Loan Forgiveness Program is intended to encourage individuals to enter and continue in the teaching profession in certain eligible elementary and secondary schools that serve low-income families. The amount of loan forgiveness for which a borrower is eligible depends on all of the following criteria:

- When the borrower begins his or her qualifying teaching service.
- The borrower's qualifications.
- The subject area in which the borrower teaches.

Under this program, the Department repays a maximum of $5,000 or $17,500, as applicable, (combined total for loans obtained under both the FFELP and the FDLP) of a qualified borrower's Stafford loan obligations, and Consolidation loan obligations (including a spousal Consolidation loan) to the extent that a Consolidation loan repaid a borrower's qualifying Stafford loan(s). In the case of a spousal Consolidation loan, the status of the spouse's underlying loans does not impact the qualified borrower's eligibility for forgiveness. No borrower may receive benefit for the same qualifying period of teaching service under both the Teacher Loan Forgiveness Program and the Public Service Loan Forgiveness Program, the Loan Forgiveness Program for Service in Areas of National Need, or subtitle D of Title I of the National and Community Service Act of 1990 (AmeriCorps).
[§HEA 428J(g)(2); §682.216(a) and (c)(9); §685.217(a) and (c)(9); DCL GEN-05-02/FP-05-02; DCL GEN-08-12/FP-08-10]

A borrower who completes the qualifying teaching service may request loan forgiveness by completing a Teacher Loan Forgiveness Application and forwarding it to the lender or guarantor. The lender must forward the borrower's completed loan forgiveness application, including any supporting documentation, to the guarantor no later than 60 days after its receipt. The guarantor determines the borrower's eligibility for loan forgiveness and advises the lender of its determination. The lender must notify the borrower of the guarantor's determination within 30 days of receiving that determination. If loan forgiveness is granted and the borrower has an outstanding loan balance, the lender also must provide the borrower with information regarding any new repayment terms.
[§682.216(f)(2) and (4)]

Unless instructed otherwise by the borrower, the lender must apply a teacher loan forgiveness payment received on the borrower's behalf first to any outstanding unsubsidized Federal Stafford loan balances, next to any outstanding subsidized Federal Stafford loan balances, and then to any eligible outstanding Federal Consolidation loan balances.
[§682.216(f)(5)]

Receipt of a benefit under this program does not entitle the borrower to a refund of any payments made on the loan(s).
[§682.216(d)(3); §685.217(d)(3)]

### Eligibility Criteria

To be eligible for loan forgiveness under this program, a borrower must meet all of the following criteria:

- The borrower must have had no outstanding balance on a FFELP or FDLP loan on October 1, 1998, or had no outstanding balance on a FFELP or a FDLP loan on the date he or she obtained a loan after October 1, 1998. A borrower must pay in full or obtain a full loan discharge on a FFELP or FDLP loan(s) that has an outstanding balance as of October 1, 1998, in order to qualify for teacher loan forgiveness on a subsequent loan(s) that the borrower obtains after October 1, 1998. In addition, if a borrower obtains a FFELP or FDLP loan(s) after October 1, 1998, while an outstanding balance remains on a loan the borrower obtained on or before October 1, 1998, the borrower must pay in full or obtain a full loan discharge on all of the borrower's outstanding loans prior to obtaining a subsequent loan in order to qualify for teacher loan forgiveness on the subsequent loan.

  For the purpose of the Teacher Loan Forgiveness Program, paid in full does not include paid in full through consolidation.

**Example:** A borrower received a Stafford loan on September 1, 1998, and a subsequent Stafford loan on August 26, 1999. The 1998 loan is not eligible for teacher loan forgiveness because the borrower obtained the loan on or before October 1, 1998. The loan made on August 26, 1999, is not eligible for teacher loan forgiveness because the borrower had an outstanding balance on a FFELP or FDLP loan obtained on or before October 1, 1998, as of the date the borrower obtained the newer loan. In this example, the borrower paid both loans in full on June 3, 2002. The borrower obtained a subsequent Stafford loan on January 6, 2004. The 2004 Stafford loan is eligible for teacher loan forgiveness, provided all other eligibility criteria are met, because on the date that the borrower obtained the 2004 loan, the 1998 and 1999 loans were paid in full. If, however, the borrower paid in full the 1998 loan but did not pay in full the 1999 loan before the borrower obtained the subsequent loan on January 6, 2004, the 2004 loan would *not* be eligible for teacher loan forgiveness.
[§682.216(a); §685.217(a)]

- The borrower must have been employed as a full-time teacher for 5 consecutive, complete academic years at a qualifying school or location operated by an eligible educational service agency (see definitions of *qualifying school* and *educational service agency* later in this subsection) or a combination of these entities, as certified by the chief administrative officer(s) at the qualifying school(s) or educational service agencies.
[HEA §428J(c)(3); §682.216(a); §685.217(a); DCL GEN-08-12/FP-08-10]

  - Any consecutive 5-year period of qualifying service may be counted for teacher loan forgiveness purposes.

  - Teaching at a qualifying school may be counted toward the required 5 consecutive complete academic years only if at least one year of teaching service was after the 1997-1998 academic year.

  - Teaching at an eligible educational service agency may be counted toward the required 5 consecutive complete academic years only if the 5-year period includes teaching service at an eligible education service agency after the 2007-2008 academic year.

  See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

- If the school where the borrower is employed meets the eligibility criteria of a *qualifying school* for any year of the borrower's employment, all subsequent years continue to qualify the borrower even if the school does not meet the criteria. However, if the borrower is initially employed by a school that does not meet the criteria and the school later qualifies, the borrower's 5 qualifying years of service begin when the school meets the eligibility criteria.
[§682.216(c)(2); §685.217(c)(2)]

- A borrower who is in default on a loan(s) for which the borrower seeks forgiveness must have made satisfactory repayment arrangements on the defaulted loan(s) to reinstate Title IV aid eligibility. See Subsection 5.2.E.
[§682.216(c)(10); §685.217(c)(10)]

- The loan for which forgiveness is sought must have been made before the end of the 5th year of qualifying teaching service.
[§682.216(a); §685.217(a)(5)]

#### Interruptions in Qualifying Teaching Service

A lender should not consider the time that a borrower is on active duty as a result of a military mobilization as an interruption in the borrower's qualifying teaching service. This applies to a borrower who is a member of a reserve component of the Armed Forces and is called or ordered to active duty for more than 30 days, and to a borrower who is a regular active duty member of the Armed Forces and is reassigned to a different duty station for more than 30 days.

Completion of one-half of an academic year is considered to be one academic year if the borrower's employer considers the borrower to have fulfilled his or her contract requirements for the academic year for the purposes of salary increases, tenure, and retirement, and the borrower is unable to complete the academic year due to any one of the following:

- A return to postsecondary education on at least a half-time basis in a program directly related to the borrower's teaching service.

- A condition covered under the Family and Medical Leave Act of 1993.

- An order to active duty status for more than 30 days as a member of a reserve component of the Armed Forces.

An interruption in the borrower's teaching service for any one of the above reasons (even if not counted as part of an eligible academic year for the purpose of the forgiveness), along with the time required to return to qualifying teaching service at the beginning of the next regularly scheduled academic year, is not considered an interruption in the required 5 consecutive years of service.
[§682.216(c)(7); §685.217(c)(7)]

The Department waives the statutory and regulatory requirements pertaining to an interruption in a borrower's teaching service if the borrower was affected by Hurricane Katrina or Hurricane Rita. The waiver applies to any period beginning on the date of the relevant hurricane and continues through June 30, 2006.
[DCL GEN-06-07]

### Loan Forgiveness Amounts

The total amount of loan forgiveness applicable to a borrower's outstanding eligible loans depends on when the borrower begins his or her period of teaching service and the type of teaching service the borrower performs.

For a borrower who begins a period of qualifying teaching service prior to October 30, 2004, the borrower may be eligible for loan forgiveness of a maximum of up to $5,000 if he or she is either:

- A full-time elementary school teacher who demonstrates knowledge and teaching skills in reading, writing, mathematics, and other areas of the elementary school curriculum.

- A full-time secondary school teacher teaching in a subject area that is relevant to his or her academic major.

A borrower may also complete the 5-year teaching service requirement by combining years of full-time service at qualifying elementary and secondary schools in order to qualify for teacher loan forgiveness, provided that he or she is otherwise eligible.

For a borrower who begins a period of qualifying teaching service prior to October 30, 2004, the borrower may be eligible for up to $17,500 in loan forgiveness (less any forgiveness amount received under the previous criteria) if the borrower has completed the period of qualifying teaching service as a highly qualified full-time mathematics or science teacher in a qualifying secondary school or as a highly qualified special education teacher.

For a borrower who began a period of teaching service on or after October 30, 2004, his or her loans may be eligible for loan forgiveness of either:

- A maximum of $5,000 for teaching as a highly qualified, full-time teacher in an eligible elementary or secondary school.

- A maximum of $17,500 for teaching as a highly qualified full-time mathematics or science teacher in an eligible secondary school or as a highly qualified special education teacher.

[§682.216(d); §685.217(d); GEN-05-02/FP-05-02]

A borrower may also complete the 5-year teaching service requirement by combining years of full-time service at qualifying elementary and secondary schools in order to qualify for teacher loan forgiveness, provided that he or she is otherwise eligible.

### Definitions Applicable to Teacher Loan Forgiveness

In the context of the teacher loan forgiveness provisions, the following definitions apply:

- A *qualifying school* is an elementary or secondary school operated by the Bureau of Indian Education (BIE) or operated on an Indian reservation by an Indian tribal group under contract with the BIE, or a school that meets all of the following criteria:
  [§682.216(c)(1)(iii); §685.217(c)(1)(iii)]

  - Is in a school district that qualifies for funds under Title I of the Elementary and Secondary Education Act of 1965, as amended.
    [§682.216(c)(1)(i); §685.217(c)(1)(i)]

  - Has been selected by the Department based on a determination that more than 30% of the school's total enrollment is made up of children who qualify for services provided under Title I.
    [§682.216(c)(1)(ii); §685.217(c)(1)(ii)]

  - Is listed in the *Annual Directory of Designated Low-Income Schools for Teacher Cancellation Benefits*. (If this directory is not available before May 1 of any year, the previous year's directory may be used.)
    [§682.216(c)(1)(iii); §685.217(c)(1)(iii)]

- An *educational service agency* is a regional public multi-service agency authorized by state statute to develop, manage, and provide services or programs to

local educational agencies. An otherwise eligible borrower may qualify for forgiveness if the borrower has performed qualifying teaching service at one or more locations that are operated by an educational service agency, but are not a school, and that have been determined by the Department, in consultation with the state, to be eligible locations for this purpose. [HEA §428J(c)(3) and §481(f); DCL GEN-08-12/FP-08-10]

- An *academic year* is one complete school year at the same school, two complete and consecutive half-years at different schools, or two complete and consecutive half-years from different school years, at either the same or different schools. Half-years exclude summer and generally fall within a 12-month period. For schools that have a year-round program of instruction, a minimum of 9 months is considered to comprise an academic year.

- A *highly qualified* teacher is a teacher in a public or nonprofit elementary or secondary school who has obtained a full state certification as a teacher (including certification obtained through alternative routes to certification) or passed the state teacher licensing examination and holds a license to teach in that state, except that, when used with respect to any teacher teaching in a public charter school, the term means that the teacher meets the requirements set forth in the state's public charter school law; and has not had certification or licensure requirements waived on an emergency, temporary, or provisional basis. In addition, the teacher must be one of the following:

  - An elementary school teacher who is new to the teaching profession; holds a bachelor's degree; and has demonstrated, by passing a rigorous state test, subject knowledge and teaching skills in reading, writing, mathematics, and other areas of basic elementary school curriculum (which may consist of passing a state-required certification or licensing test or tests in reading, writing, mathematics, and other areas of the basic elementary school curriculum).

  - A middle or secondary school teacher who is new to the profession; holds a bachelor's degree; and has demonstrated a high level of competency in each of the academic subjects in which the teacher teaches by passing a rigorous state academic subject test in each of the academic subjects in which the teacher teaches (which may consist of a passing level of performance on a state-required certification or licensing test or tests in each of the academic subjects in which the teacher teaches), or by successfully completing, in each of the academic subjects in which the teacher teaches, of an academic major, a graduate degree, coursework equivalent to an undergraduate academic major, or advanced certification or credentialing.

  - An elementary, middle, or secondary school teacher who is not new to the profession; holds at least a bachelor's degree; and meets the applicable standards of an elementary, middle, or secondary school teacher who is new to the profession; or demonstrates competence in all the academic subjects in which the teacher teaches based on a high objective uniform state standard of evaluation that meets all of the following criteria:

    - Is set by the state for both grade appropriate academic subject matter knowledge and teaching skills.

    - Is aligned with challenging state academic content and student academic achievement standards and developed in consultation with core content specialists, teachers, principals, and school administrators.

    - Provides objective, coherent information about the teacher's attainment of core content knowledge in the academic subjects in which a teacher teaches.

    - Is applied uniformly to all teachers in the same academic subject and the same grade level throughout the state.

    - Takes into consideration, but is not based primarily on, the time the teacher has been teaching in the academic subject.

    - Is made available to the public upon request.

    - May involve multiple, objective measures of teacher competency.

A teacher who is employed in a nonprofit private school and who is exempt from state certification requirements may have such employment qualify for loan forgiveness if the teacher can demonstrate rigorous subject knowledge and skills by taking competency tests in the applicable grade levels and subject areas. The competency tests must be

recognized by five or more states for the purpose of fulfilling the highly qualified teacher requirements, and the score achieved by a teacher on each test must equal or exceed the average passing score of those five states. If a nonprofit private school teacher is subject to state certification, the teacher is not required to further demonstrate the knowledge and skills noted in this paragraph or to take additional competency tests. [HEA §428J(g)]

- *Full time* means the standard used by a state in defining full-time employment as a teacher. For a borrower teaching in more than one school, the determination of full time is based on the combination of all qualifying employment. A borrower may combine service at multiple qualifying schools to equal full-time teaching service.

- *Elementary school* means a public or nonprofit private school that provides elementary education as determined by state law or the Department if that school is not in a state.

- *Secondary school* means a public or nonprofit private school that provides secondary education as determined by state law or the Department if the school is not in a state.

- *Teacher* means a person who provides direct classroom teaching or classroom-type teaching in a non-classroom setting, including special education teachers.

[§682.216(b); §685.217(b); GEN-05-02/FP-05-02]

#### Suspending Collection Activity

If the borrower requests a forbearance for the period during which he or she is performing the qualifying teaching service, the lender must grant the forbearance if the lender believes that the anticipated forgiveness amount will satisfy the outstanding loan balance at the time the borrower will complete the qualifying period of teaching service. Teacher loan forgiveness forbearance may be granted in 12-month increments during periods in which the borrower is performing qualifying teaching service if the borrower applies for the forbearance. See Subsection 11.24.C for more information regarding mandatory forbearance applicable to loans for which the borrower anticipates loan forgiveness.
[§682.216(e)(1)(i)]

If a guarantor notifies a lender, or the lender receives reliable information from another source (such as a telephone call or letter from the borrower) that a borrower may be eligible for teacher loan forgiveness, the lender must grant an administrative forbearance for a period not to exceed 60 days while waiting for the borrower to complete and return the Teacher Loan Forgiveness Application. If teacher loan forgiveness may be applicable to any Stafford loan(s) that was paid in full by a Consolidation loan, the lender must grant this forbearance on the entire Consolidation loan. The lender must place a mandatory administrative forbearance on the borrower's account for the period from which the forgiveness application is received until the forgiveness application is approved or denied by the guarantor. See Subsection 11.23.D for information regarding the mandatory administrative forbearance on loans for which the borrower is applying for loan forgiveness due to qualifying periods of teaching service.
[§682.216(e)(1)(ii) and (iii)]

#### Requirements Pertaining to Request for Payment

The lender must forward the borrower's completed loan forgiveness application, including any supporting documentation, to the guarantor no later than 60 days after its receipt of the documentation. If the lender files a request for payment later than 60 days after it receives the completed Teacher Loan Forgiveness Application and the guarantor approves the loan for forgiveness in whole or in part, the lender must repay all interest and special allowance received on the forgiven loan amount for periods after the expiration of the 60-day filing period. The lender is prohibited from collecting this interest from the borrower.
[§682.216(f)(2)]

#### FFELP Teacher Loan Forgiveness Request Form

The FFELP Teacher Loan Forgiveness Request form is designed to be used by a lender to request payment for all or a portion of the balance on a Stafford loan or a Consolidation loan (including a spousal Consolidation loan) with an underlying Stafford loan(s) that is eligible for teacher loan forgiveness. In the case of a spousal Consolidation loan, the status of the spouse's underlying loans does not impact the qualified borrower's eligibility for forgiveness.

*FFELP Teacher Loan Forgiveness Request Form Instructions*

Figure 13-5 helps a lender determine what information must be provided on the FFELP Teacher Loan Forgiveness Request form. Detailed descriptions of these items are located in the Instructions for Completing the FFELP Teacher Loan Forgiveness Request form.

## Information to Be Provided on the FFELP Teacher Loan Forgiveness Request Form — Figure 13-5

| Item Description, Sections A, B, and C | Required[1] |
|---|---|
| Date form is completed. | • |
| Servicer's name (if no servicer, provide lender name). | • |
| Lender's six-digit lender ID assigned by the Department. | • |
| Servicer's six-digit servicer ID assigned by the Department (if serviced). | • |
| The name of the guarantor of the loan. | • |
| Borrower's Social Security number (SSN). | • |
| Borrower's date of birth. | • |
| Borrower's name. | • |
| Date the Teacher Loan Forgiveness Application was received from the borrower. | • |
| Loan type for each loan included in request (e.g., SF=Subsidized Stafford, SU=Unsubsidized Stafford, CL=Consolidation). | • |
| Loan ID for each loan identified on the form (e.g., the loan identifier code, file number, guarantee date, or amount, as indicated by the guarantor). | • |
| Date of the first disbursement of each loan. | • |
| Current principal balance of each loan (for Consolidation loans, include only the outstanding portion of the loan that was used to repay an eligible Stafford loans). | • |
| Current interest rate of each loan. | • |
| Date through which interest was last paid for each loan. | • |
| Name of the person or unit responsible for answering questions relating to the information provided on the form. | • |
| Date completed. | • |
| Telephone number of person or unit. | • |

[1] Refers to information that the holder of the loan must provide on the Teacher Loan Forgiveness Request Form.

## 13.9.B
## Loan Forgiveness Program for Service in Areas of National Need

The Loan Forgiveness Program for Service in Areas of National Need is intended to encourage a qualified individual to enter and continue employment in a defined "area of national need." The Department will grant loan forgiveness on eligible loans under this program on a first-come, first-served basis, and that loan forgiveness is contingent on the availability of annual federal appropriations. This program is currently not funded. If the borrower qualifies, not more than $2,000 of the outstanding balance of the borrower's student loan obligation is forgiven after the completion of each applicable school, academic, or calendar year of employment. The maximum amount of forgiveness benefits that a borrower may receive under this forgiveness program is $10,000 and no borrower may receive forgiveness under this program for more than 5 years of service.

To qualify under this forgiveness program, a borrower must not be in default on the loan for which forgiveness is sought, and must be employed full time in an area of national need. A parent PLUS loan or a Consolidation loan that repaid a parent PLUS loan is not eligible for this type of forgiveness.

A borrower is considered to be employed in an area of national need if the borrower meets one of the following requirements:

- The borrower is employed full time as an early childhood educator.
- The borrower has obtained a baccalaureate or advanced degree in a critical foreign language and is employed full time in one of the following positions:
  - As an elementary or secondary school teacher of a critical foreign language.
  - In an agency of the United States government in a position that regularly requires the use of such critical foreign language.
  - In an institution of higher education as a faculty member or instructor teaching a critical foreign language.
- The borrower is highly qualified, as defined in Section 9101 of the Elementary and Secondary Education Act of 1965, and is employed full time as any one of the following:
  - A teacher educating students who have limited English proficiency.
  - A teacher in a school that qualifies under Section 465(a)(2)(A) for loan cancellation for Perkins loan recipients who teach in such a school.
  - A teacher who is an individual from an underrepresented population in the teaching profession, as determined by the Department.
  - A teacher in an educational service agency, as defined in Section 9101 of the Elementary and Secondary Education Act of 1965.
- The borrower is employed full time as a school superintendent, principal, or other administrator in a local educational agency, including an educational service agency, in which 30% or more of the schools are schools that qualify under Section 465(a)(2)(A) for loan cancellations for Perkins loan recipients who teach in such a school.
- The borrower is employed full time as a school counselor (as defined in Section 5421(e) of the Elementary and Secondary Education Act of 1965), in a school that qualifies under Section 465(a)(2)(A) for loan cancellation for Perkins loan recipients who teach in such a school.
- The borrower is employed full time as a librarian in either of the following:
  - A public library that serves a geographic area within which the public schools have a combined average of 30% or more of the schools' total student enrollments composed of children meeting a measure of poverty under Section 1113(a)(5) of the Elementary and Secondary Education Act of 1965.
  - A school that qualifies under Section 465(a)(2)(A) for loan cancellation for Perkins loan recipients who teach in such a school.

- The borrower has, at a minimum, a graduate degree in speech-language pathology, audiology, or communication sciences and disorders, and is employed full-time as a speech-language pathologist or audiologist in an eligible preschool program or a school that qualifies under Section 465(a)(2)(A) for loan cancellation for Perkins loan recipients who teach in such a school.

- The borrower has received a degree from a medical school at an institution of higher education and has been accepted to, or currently participates in, a full-time graduate medical education training program or fellowship (or both) to provide health care services (as recognized by the Accreditation Council for Graduate Medical Education) that satisfies both of the following criteria:

  – Requires more than 5 years of total graduate medical training.

  – Has fewer United States medical school graduate applicants than the total number of positions available in such program or fellowship.

- The borrower is employed full time as a nurse in a clinical setting or as a member of the nursing faculty at an accredited school of nursing as defined in Section 801 of the Public Health Service Act.

- The borrower is a licensed, certified, or registered dietician who has completed a degree in a relevant field and who is employed full time as a dietician with an agency of the special supplemental nutrition program for women, infants, and children under Section 17 of the Child Nutrition Act of 1966.

- The borrower is a physical therapist and is employed full time providing physical therapy services to children, adolescents, or veterans.

- The borrower is an occupational therapist and is employed full time providing occupational therapy services to children, adolescents, or veterans.

- The borrower has at least a master's degree in social work, psychology, or psychiatry, and is employed full time providing mental health services to children, adolescents, or veterans.

- The borrower has obtained a degree in social work or a related field with a focus on serving children and families and is employed full time in public or private child welfare services.

- The borrower has received a degree from an accredited dental school (as accredited by the Commission on Dental Accreditation) and satisfies one of the following criteria:

  – Has completed residency training in pediatric dentistry, general dentistry, or dental public health.

  – Is employed full time as a member of the faculty at a program or school accredited by the Commission on Dental Accreditation.

- The borrower is employed full time in applied sciences, technology, engineering, or mathematics.

- The borrower is employed full time in any of the following positions:

  – Public safety (including a first responder, firefighter, police officer, or other law enforcement or public safety officer).

  – Emergency management (including an emergency medical technician).

  – Public health (including full-time professionals engaged in health care practitioner occupations and health care support occupations, as defined by the Bureau of Labor Statistics).

  – Public interest legal services (including prosecution, public defense, or legal advocacy in low-income communities at a nonprofit organization).

Receipt of a benefit under this program does not entitle the borrower to a refund of payments made on the loan. In addition, no borrower may, for the same service, receive a reduction of his or her loan amount under both this loan forgiveness program and the Teacher Loan Forgiveness Program, the Loan Repayment Program for Civil Legal Assistance Attorneys, the Public Service Loan Forgiveness Program under the Federal Direct Loan Program, or the Teacher Loan Forgiveness Program under the Federal Direct Loan Program.
[HEA §428K]

# 13.9.C
# Civil Legal Assistance Attorney Student Loan Repayment Program

The Civil Legal Assistance Attorney Student Loan Repayment Program is intended to encourage a qualified individual to enter and continue employment as a civil legal assistance attorney. The Department will repay portions of a qualifying student loan on behalf of the borrower. Receipt of a benefit under this program does not entitle the borrower to a refund of payments made on the loan.

The Department will grant loan repayment under this program on a first-come, first-served basis and repayment is contingent on the availability of annual federal appropriations. Congress appropriated funds for this program for fiscal year 2010 through the Consolidated Appropriations Act of 2010 (P.L.111-117).
[HEA §428L; *Federal Register* dated July 7, 2010]

### Eligibility Criteria

To be eligible for loan repayment under this program, a borrower must meet all of the following criteria:

- The borrower must have a qualifying loan as defined in the Applicable Definitions included later in this subsection.
- The borrower must not be in default on a loan for which repayment is sought.
- The borrower must be employed as a civil legal assistance attorney.
- The borrower must be continually licensed to practice law.
- The borrower must execute a service agreement with the Department.
- The borrower may not, for the same service, receive a reduction of the loan amount under both the Civil Legal Assistance Attorney Student Loan Repayment Program and the Loan Forgiveness for Service in Areas of National Need Program, or the Public Service Loan Forgiveness Program.

[HEA §428L; *Federal Register* dated July 7, 2010]

### Program Requirements

To request loan repayment, a borrower must complete the Civil Legal Assistance Attorney Student Loan Repayment Program Application to Participate and Service Agreement form and submit it to the Department. The service agreement will include, at a minimum, each of the following requirements:

- The borrower will remain employed full time as a civil legal assistance attorney for at least 3 years, unless involuntarily separated from that employment.
- If the borrower is involuntarily separated from employment because of misconduct, or voluntarily separates from employment before the end of the required 3-year service period, the borrower will repay the Department the amount of any benefits the borrower has received under the service agreement.
- If the borrower fails to submit a certification of completed service within 90 days of the end date of the second or subsequent consecutive 12-month service period required to retain the repayment benefit, the Department notifies the borrower that the borrower must repay any benefit received under the Service Agreement unless the borrower provides the Department, within 30 days of the date of the Department's notice, with documentation that establishes to the satisfaction of the Department that such repayment should not be required.
- If the borrower is required to repay an amount to the Department and fails to repay the amount, the Department or another agency may recover the sum according to methods that are provided by law for the recovery of amounts owed to the federal government.
- The Department may waive portions of the required recoverable amount if it is shown that the recovery of the amount would be contrary to the public interest.
- The Department will make student loan payments on the qualifying loan(s) for the period of the service agreement, subject to the availability of appropriations.

[HEA §428L; *Federal Register* dated July 7, 2010]

**Amount Paid by the Department**

If the borrower qualifies, the Department will pay the loan holder up to $6,000 of the outstanding balance of the borrower's student loan obligation in any calendar year. The maximum amount of repayment benefits that a borrower may receive under this program is $40,000. The Department will give priority in each fiscal year to a borrower who meets each of the following qualifications:

- The borrower has practiced law for 5 years or less and, for not less than 90% of the time in that legal practice, has served as a civil legal assistance attorney.
- The borrower has received repayment benefits under this program during the previous fiscal year.
- The borrower has completed less than 3 years of the first required period of service specified for the borrower in the written agreement with the Department.

The Department will send any approved payment amount first to the holder of the borrower's current highest outstanding unsubsidized loan. If the borrower has no outstanding unsubsidized loans, the approved payment amount will be sent to the holder of the borrower's highest outstanding subsidized loan.

If the holder of the borrower's loan(s) determines that the repayment amount received from the Department exceeds the remaining balance of the loan for which it is designated in accordance with the preceding paragraph, the holder must apply the remaining balance to another eligible loan of the borrower held by the holder, if applicable. If the holder has no other eligible loans of the borrower, the holder must return the balance to the Department. If applicable, the Department will forward that balance to another holder of the borrower's eligible loans.
[HEA §428L; *Federal Register* dated July 7, 2010]

**Applicable Definitions**

In the context of the Civil Legal Assistance Attorney Student Loan Repayment Program provisions, the following definitions apply:

- *Civil legal assistance attorney* means an attorney who is a full-time employee of one of the following:
  - A nonprofit organization that provides legal assistance with respect to civil matters to low-income individuals, without a fee, or,
  - A protection and advocacy system or client assistance program that provides legal assistance to clients with respect to civil matters and that receives funding under—
    - Subtitle C of Title I of the Developmental Disabilities Assistance and Bill of Rights Act of 2000 (42 U.S.C. 15041 et seq.).
    - Section 112 or 509 of the Rehabilitation Act of 1973 (29 U.S.C. 732, 794e).
    - Part A of Title I of the Protection and Advocacy for Individuals with Mental Illness Act (42 U.S.C. 10801 et seq.).
    - Section 5 of the Assistive Technology Act of 1998 (29 U.S.C. 3004).
    - Section 1150 of the Social Security Act (42 U.S.C. 1320b-21).
    - Section 1253 of the Public Health Service Act (42 U.S.C. 300d-53).
    - Section 291 of the Help America Vote Act of 2002 (42 U.S.C. 15461).
- *Employee* means an individual who, under federal tax law, is considered an employee of the non-profit organization, protection and advocacy system, or client assistance program.
- *Full-time employment* means working in qualifying employment in one or more jobs for the greater of:
  - An annual average of at least 30 hours per week, or
  - The number of hours the employer considers full time unless the qualifying employment is with two or more employers.

  Vacation or leave time provided by the employer or leave taken for a condition that is a qualifying reason under the Family and Medical Leave Act of 1993, (29 U.S.C. 2612(a)(1) and (3)) is not considered in determining the average hours worked on an annual basis.
- *Involuntary separation due to misconduct* means termination from employment which results in the borrower not being eligible to receive unemployment benefits under applicable state law.

- *Non-profit organization* means an organization, under section 501(c)(3) of the Internal Revenue Code, which is exempt from taxation under section 501(a) of the Internal Revenue Code.

- *Qualifying loan* means a Federal Perkins, FFELP, or FDLP Loan, (excluding parent PLUS loans made under the FFELP and FDLP and Federal Consolidation Loans and Direct Consolidation Loans that repaid a parent PLUS loan).

  – A qualifying joint Consolidation loan is eligible. However if only one of the two borrowers meets the eligibility requirements, the repayment applies only to the remaining balance of the joint Consolidation loan that is attributable to the loans originally received by the borrower who performed the qualifying employment.

- *Year* means a consecutive 12-month period that begins on a date identified by the Department that is on or after the date of the signed written service agreement between the borrower and the Department.

[HEA §428L; *Federal Register* dated July 7, 2010]

## 13.9.D
## Loan Forgiveness under the Income-Based Repayment (IBR) Schedule

Under IBR, a borrower who meets all eligibility requirements may have his or her outstanding principal balance and accrued interest forgiven on a qualifying FFELP loan. To be eligible for IBR loan forgiveness after 25 years, the borrower must have participated in the IBR plan and have made at least 300 monthly qualifying payments or equivalents on or after July 1, 2009, by satisfying any of the following conditions:

- Made monthly loan payments, equal to or greater than $0 dollars, based on a partial financial hardship (PFH).

- Made monthly loan payments under any repayment plan that were equal to or greater than the amount required under the standard repayment schedule with a 10-year repayment period (*standard-standard*).

- Made monthly loan payments, after the borrower no longer had a partial financial hardship or after the borrower stopped making income-based payments, under the standard repayment schedule based on a 10-year repayment period for the amount of the borrower's loans that were outstanding at the time the borrower selected the IBR plan (*permanent-standard*).

- Received an economic hardship deferment on eligible loans.

[§682.215(f)(1) and (2); §685.221(f)(1) and (2)]

The beginning date for the 25-year repayment period for forgiveness for a borrower with a PFH is the date that the borrower makes a qualifying payment or receives an economic hardship deferment on an eligible FFELP loan(s). A borrower may have loans with different beginning dates for the 25-year repayment period for loan forgiveness. Although the "begin" date(s) may be prior to the date(s) that the borrower qualified for the IBR plan, a "begin" date must not be prior to July 1, 2009. If a borrower satisfies the loan forgiveness requirements, the Department pays the outstanding balance and accrued interest on any eligible FFELP loan, including a rehabilitated loan for which the borrower qualified or re-qualified for IBR (see Section 13.7).
[§682.215(f)(3)and(4); §685.221(f)(3) and (4)]

### Requirements Pertaining to Request for Payment

The lender must request payment from the guarantor not later than 60 days after the lender determines that a borrower qualifies for loan forgiveness. If the lender requests payment later than 60 days after determining that a borrower qualifies for IBR forgiveness, the lender must repay all interest and special allowance received on the forgiven loan amount for periods after the expiration of the 60-day filing period. The lender is prohibited from collecting this interest from the borrower.
[§682.215(g)(1) and (2)]

### Borrower Notification Requirements

Within 30 days after notification by the guarantor that the borrower is eligible for IBR forgiveness, the lender must notify the borrower of the determination. The lender must also advise the borrower that the repayment obligation on the loan(s) for which IBR forgiveness was requested has been satisfied. The lender must also provide the borrower with information on the required processing of the amount forgiven. This includes information on the lender's understanding of the current tax treatment of the forgiven amount. The lender is also encouraged to refer the borrower to the Internal Revenue Service for additional information.
[§682.215(g)(4); *Federal Register* dated October 23, 2008]

### Processing an Approved Forgiveness

If the guarantor determines that a borrower is eligible for IBR forgiveness, the lender must apply the proceeds of the forgiveness amount to satisfy the outstanding balance on the loan(s) for which IBR forgiveness was requested. If the forgiveness amount exceeds the outstanding balance on the eligible loan(s), the lender must refund the excess amount to the guarantor. The lender must promptly return to the sender any payment received on a loan after the guarantor pays the lender the amount of loan forgiveness.
[§682.215(g)(5) and (7)]

### Denying Forgiveness

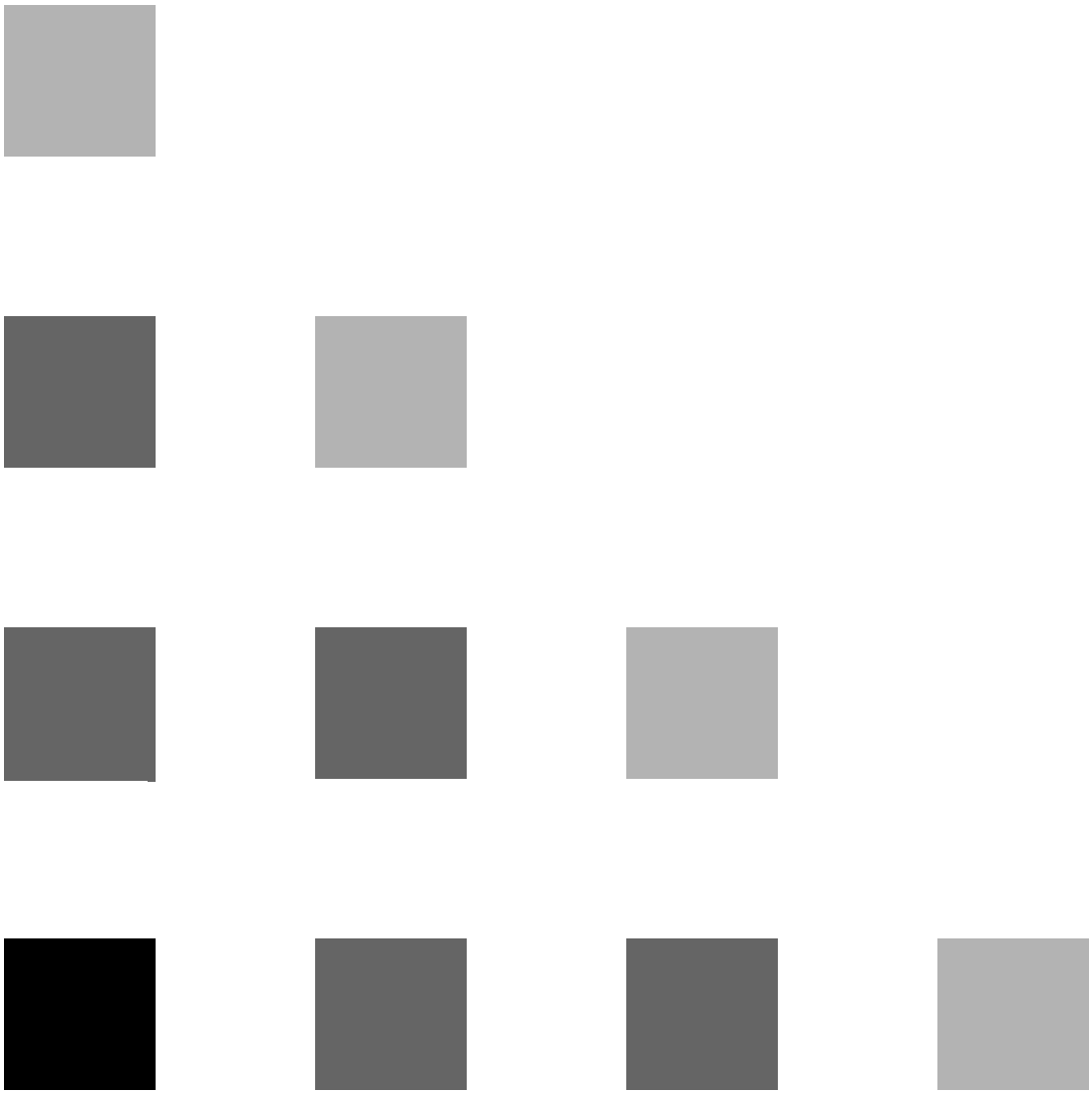
If the guarantor determines that the borrower is not eligible for IBR forgiveness, the lender may grant an administrative forbearance from the date that the borrower's repayment obligation was suspended until a new payment due date is established. The lender may capitalize any accrued or unpaid interest at the end of the forbearance, unless the denial of the request for payment resulted from a lender error.
[§682.215(g)(6)]

# Tab Locator Page

## Remove this page and replace with tab divider.

# Tab Locator Page

## Remove this page and replace with tab divider.



# 14 Violations, Penalties, and Cures


| | | |
|---|---|---|
| 14.1 | Due Diligence Violations | 1 |
| 14.1.A | Violations Due to Late or Missed Collection Efforts | 1 |
| 14.1.B | Violations Due to Late Conversion to Repayment | 1 |
| 14.1.C | Violations Due to Missing Payment History | 1 |
| 14.1.D | Violations Due to Gaps in Due Diligence | 2 |
| 14.1.E | Violations and Cures Associated with Unsynchronized Servicing of a Consolidation Loan with Multiple Loan Records | 2 |
| 14.2 | Timely Claim Filing Violations | 3 |
| 14.3 | Penalties for Due Diligence Violations | 4 |
| 14.3.A | Default Claims | 4 |
| 14.3.B | Non-Default Claims | 6 |
| 14.3.C | Determining the Date of the Earliest Unexcused Violation | 7 |
| 14.4 | Penalties for Timely Claim Filing Violations | 7 |
| 14.4.A | Original Filing Deadline | 7 |
| 14.4.B | Refile Deadline | 8 |
| 14.5 | Cures and Reinstatement of the Guarantee | 10 |
| 14.5.A | Inadvertent Cures | 11 |
| 14.5.B | Cures for Due Diligence Violations and Gaps | 11 |
| 14.5.C | Cures for Missing Payment History | 12 |
| 14.5.D | Cures for Timely Filing Violations | 12 |
| 14.6 | Intensive Collection Activities (ICA)/Location Cures | 13 |

This page intentionally left blank.

Chapter 14 describes 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 in order to reinstate a guarantee that has been lost as a result of such violations or gaps, to refile a claim, or both, as is the case upon completion of the intensive collection activities (ICA)/ location cure outlined in Section 14.6.
[§682, Appendix D]

## 14.1
## 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 default aversion assistance from the guarantor as required.
- Conduct a skip tracing activity within the prescribed time frame.
- Establish a first payment due date.
- Provide a payment history.
  [§682, Appendix D, I.A.]

## 14.1.A
## Violations Due to Late or Missed Collection Efforts

For purposes of assessing due diligence violations, only violations that result from collection 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 the lender does not perform a required due diligence activity or performs it 6 days or more late (21 days or more in the case of a transfer), the violation will result in a penalty to the lender or cancellation of the loan's guarantee.
[§682, Appendix D, I.C.3]

For due diligence purposes, the regulations define "transfer" as any action (such as the sale of a loan) that results in a change of the system used to monitor or conduct collection activities on the loan.
[§682.411(k); §682, Appendix D, I.A.]

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 270th 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.
[§682, Appendix D, I.B.5.]

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.
[§682, Appendix D, I.D.]

## 14.1.B
## Violations Due to Late Conversion to Repayment

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.
[§682, Appendix D, II.]

## 14.1.C
## Violations Due to 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. For information on cures for missing payment history, see Subsection 14.5.C.

## 14.1.D
## Violations Due to Gaps in Due Diligence

Intervals between collection activities are called gaps. Permitting too long of a period between collection activities—thus, too long of a "gap"—creates a violation for which the lender may incur penalties, which may include the loss of the loan's guarantee.

Due diligence gaps may occur beginning the day after one of the following dates:

- The payment due date of the loan, unless the borrower's address is unknown.
  [§682.411(j)(1)(i)]

- The date the last payment was received on a loan that remains delinquent.
  [§682.411(j)(1)(ii)]

- The date the lender receives a new valid address for a delinquent borrower.
  [§682.411(j)(1)(iii)]

- The date the lender receives a new valid telephone number for a delinquent borrower.
  [DCL 96-L-186/96-G-287, Q&A #58]

- The date the last collection activity, including skip tracing efforts, was performed.
  [§682.411(j)(1)(iv)]

- The date on which the lender received notice of a dishonored check that had been submitted as payment on the borrower's account.
  [§682.411(j)(1)(v)]

- The ending date of an authorized deferment or forbearance period on a delinquent loan.
  [§682.411(j)(1)(vi)]

- The date the lender determined that it no longer had a valid address.
  [§682.411(j)(1)(vii)]

Due diligence gaps end on the earliest of:

- The day on which the lender receives the first subsequent payment on behalf of the borrower.
  [§682.411(j)(2)(i)]

- The day the lender receives a completed request for a deferment or forbearance.
  [§682.411(j)(2)(i)]

- 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.
  [§682.411(j)(2)(ii)]

- The day on which the lender receives written communication from the borrower relating to the borrower's account.
  [§682.411(j)(2)(iii)]

- The date the loan defaults.
  [§682.411(j)(2)(iv)]

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, Appendix D, I.C.2.d.]

## 14.1.E
## Violations and Cures Associated with Unsynchronized Servicing of a Consolidation Loan with Multiple Loan Records

Although the subsidized, unsubsidized, and HEAL portions of a single Consolidation loan may appear as separate loan servicing records on the lender's system, the lender must ensure that the Consolidation loan is administered as a single Consolidation loan.

If the lender fails to perform due diligence activities on a single payment due date and amount, or fails to grant deferment or forbearance for the single Consolidation loan that contains multiple loan servicing records, the lender may incur due diligence violations sufficient to cause a loss of guarantee on the loan. If this occurs, due diligence activities will be reviewed and penalties assessed in accordance with Sections 14.3 and 14.4. For purposes of

assessing due diligence violations on an unsynchronized Consolidation loan, the servicing of the single Consolidation loan is reviewed as follows:

- If the guarantor cannot determine the correct due date or cannot confirm that the loan is in default, the claim may be returned to the lender. Refer to Section 13.2 for more information on claim returns.

- If the guarantor determines a loan to be otherwise eligible for claim payment, the guarantor may return the claim for the lender to make the necessary corrections and resubmit the claim to include all portions of the loan, the correct due date, and the 270 days of servicing detail. Upon receipt of the resubmitted claim, the guarantor will review the conversion to repayment and all due diligence activity based upon the correct due date. This includes reviewing due diligence activity performed on all portions of the single Consolidation loan.

- Based upon the due diligence review of the single Consolidation loan, penalties for any violations identified will be assessed in accordance with Section 14.3 or 14.4, as applicable.

- Depending upon the level of any penalty that may be assessed, the lender may cure the loan by following the appropriate procedure in Section 14.5 or 14.6, as applicable.

## 14.2 Timely Claim Filing Violations

Lenders are required to file claims within prescribed time frames, based on type of claim being filed. A lender will incur a timely filing violation if it fails to submit:

- A default claim by the 360th day of delinquency. [§682, Appendix D]

- A death claim within 60 days after receiving the borrower's or student's death certificate or other documentation supporting the discharge request that formed the basis for the determination of death. [§682.402(g)(2)(i)]

- Spouses and parents of victims of September 11, 2001, discharge claim within 60 days of determining the borrower qualifies for the discharge.

- A disability claim within 60 days after receiving a complete loan discharge application or other form(s) approved by the Department. [§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, Appendix D]

- 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.
[§682, Appendix D, I.A.]

# 14.3 Penalties for Due Diligence Violations

This section outlines the penalties for the due diligence violations incurred on claims filed due to a borrower's default and on claims filed due to reasons other than default.

## 14.3.A Default Claims

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.
[§682, Appendix D, I.C.3.a.]

#### Due Diligence Violation and Gap Penalties

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 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 12.4.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 Lender's Interest and Special Allowance Request and Report (LaRS report).
   [§682, Appendix D, I.C.3.b.]

2. 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 LaRS report.

   *If the failure to submit a request for* default aversion assistance *by the 330th day of* delinquency *is one of the due diligence violations under item 1 or 2 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 270 days preceding the date on which the loan defaulted. The lender should make the appropriate adjustments to its LaRS report.*
   [§682, Appendix D, I.C.3.b.]

3. 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. The earliest unexcused violation date is the day after the date of default. See Subsection 14.5.B for cure procedures.
   [§682, Appendix D, I.C.3.c.]

4. If there is a gap of 46 days or more (61 days or more in the case of a transfer), the guarantee on the loan will be canceled. 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. The earliest unexcused violation date is the 46th day (or 61st day in the case of a transfer) following the date of the last collection activity that started the gap. See Subsection 14.5.B for cure procedures.
   [§682, Appendix D, I.C.3.d.]

5. 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 14.5.C).

6. If the lender fails to establish a first payment due date within the time frames specified (see Section 10.5), 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, II.; DCL 96-L-186/96-G-287, Q&As #47 and #68]

Some guarantors have additional or alternate requirements regarding penalties for due diligence violations and gaps. These requirements are noted in Appendix C.

#### Address Skip Tracing Penalties

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.
[§682.411(h)(1); §682, Appendix D, I.C.3.b.]

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.
[§682, Appendix D, I.C.3.b.]

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.
[§682, Appendix D, I.C.3.b.]

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.
[§682, Appendix D, I.C.3.b.]

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 refiled within the time frames associated with the claim return (see Section 14.3), 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.
  [§682, Appendix D, I.C.3.b.]

- 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.
  [§682, Appendix D, I.C.3.b.]

- If a claim is refiled with no skip tracing activity performed, three due diligence violations will be assessed, resulting in the cancellation of the guarantee.
  [§682, Appendix D, 1.C.3.c and d]

#### Telephone Skip Tracing Penalties

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.
[§682, Appendix D, I.C.3.b.]

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 refiled within the time frames associated with the claim return (see Subsection 14.4.B), 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.
  [§682, Appendix D, I.C.3.b.]

- 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.
  [§682, Appendix D, I.C.3.b.]

- If a claim is refiled with no skip tracing activity performed, three due diligence violations will be assessed, resulting in the cancellation of the guarantee.
  [§682, Appendix D, I.C.3.c. and d.]

## 14.3.B Non-Default Claims

For loans on which a non-default claim is filed, the prior servicing violations may affect the amount of claim reimbursement to which the lender is entitled.

### Bankruptcy 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.
[§682, Appendix D, I.E.2.]

### Closed School and False Certification Claims

For closed school and false certification claims, due diligence is not monitored. Therefore, no due diligence violations will be assessed.
[§682.402(a)(4)]

### Death Claims

For a death claim, due diligence activities required before the date the lender determined that the borrower (or, in the case of a PLUS loan, the dependent student) died are reviewed and penalties are assessed according to Subsection 14.3.A. If there are violations sufficient to result in the loss of the loan's guarantee and the guarantee is not reinstated before the date the lender determined that the borrower (or, in the case of a PLUS loan, the dependent student) died, the lender must discharge the loan even though the loan balance will not be reimbursed by the guarantor.
[§682, Appendix D, I.E.2.]

### Ineligible Borrower Claims

For ineligible borrower claims, due diligence is monitored from the date the lender receives notification that a borrower is ineligible (see Subsection 12.4.F). Therefore, no penalties will be assessed for any due diligence violations preceding notification of ineligibility.

See Subsection 14.4.A for information on timely filing violations.

### Spouses and Parents of Victims of September 11, 2001, Claims

For a spouses and parents of victims of September 11, 2001, claim, any failure by the lender to satisfy due diligence requirements prior to the filing of the claim that would have resulted in the loss of reinsurance on the loan in the event of default are waived, provided the loan was held by an eligible loan holder at all times.

### Total and Permanent Disability Claims

For a total and permanent disability claim, due diligence activities required before the date the lender determined that the borrower became totally and permanently disabled are reviewed and penalties assessed according to Subsection 14.3.A. If there are violations sufficient to result in the loss of the loan's guarantee and the guarantee is not reinstated before the date the lender determined that the borrower became totally and permanently disabled, the lender must discharge the loan even though the loan balance will not be reimbursed by the guarantor.
[§682, Appendix D, I.E.2.]

## 14.3.C
## Determining the Date of the Earliest Unexcused Violation

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. The date of the earliest unexcused violation is:

- The 46th day after the last collection activity in cases where a lender permits a gap in collection activities of 46 or more days.
  [DCL 96-L-186/96-G-287, Q&A #68]

- The 271st day of delinquency if there exist three or more due diligence violations of 6 days or more.
  [DCL 96-L-186/96-G-287, Q&A #68]

- 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 Section 10.5 for information on establishing first payment due dates).
  [DCL 96-L-186/96-G-287, Q&A #68]

- 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]

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.
[§682, Appendix D]

## 14.4
## Penalties for Timely Claim Filing Violations

Timely claim filing is important in facilitating the collection of defaulted FFELP loans and the orderly disposition of other claims. Accurate and timely records on a borrower's repayment history can impact a borrower's eligibility for future federal student aid, licenses, income tax refunds, and other significant benefits. Therefore, in order to protect borrowers as well as the federal fiscal interest and overall program integrity, lenders can be assessed penalties up to and including loss of the guarantee on a loan for failing to submit claim records on time.

## 14.4.A
## Original Filing Deadline

#### 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.
[§682.402(h)(3); DCL 96-L-186/96-G-287, Q&As #67 and #73]

#### Closed School and False Certification Claims

If a lender does not file a closed school or false certification discharge claim 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.
[§682.402(h)(3)]

#### Death Claims

If the lender does not file a death claim within the required 60-day filing period, the guarantor will purchase the claim—provided that the lender did not incur violations that resulted in a noncurable cancellation of the loan's guarantee before the date it determined that the borrower or student for whom the loan was obtained died. However, the claim is subject to an interest penalty and the lender must repay all interest benefits and special allowance payments for amounts received or otherwise payable after the 60-day claim filing period. If the lender incurs a timely claim filing or due diligence violation that results in the cancellation of the loan's guarantee and the violations are not cured before the date it determined that the borrower or student died, the guarantee on the loan cannot be reinstated. The lender also must not attempt to collect the loan.
[§682.402(h)(3)]

#### Default Claims

Submission of a default claim between the 330th and 360th day of delinquency will result in loss of eligibility for special allowance beyond the 330th day of delinquency. Failure to submit a default claim by the 360th 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 14.5.D).
[§682.406(a)(5); §682, Appendix D, I.E.]

#### Ineligible Borrower Claims

If the lender does not submit an ineligible borrower claim within the specified 120-day time frame (see Subsection 13.6.B), or does not mail the final demand letter in a timely manner (see Subsection 12.4.F), 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 guarantor will pay the claim, 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 U.S. Department of Education on the ineligible portion of the loan.

#### Total and Permanent Disability Claims

If the lender does not file a total and permanent disability claim within the required 60-day filing period, the guarantor will purchase the claim—provided that the lender did not incur violations that resulted in a noncurable cancellation of the loan's guarantee before receiving certification of the borrower's disability. However, the claim is subject to an interest penalty, and the lender must repay all interest benefits and special allowance payments for amounts received or otherwise payable after the 60-day claim filing period. If the lender incurs a timely claim filing or due diligence violation that results in the cancellation of the loan's guarantee and the violations are not cured before the date it determined that the borrower became disabled, the guarantee on the loan cannot be reinstated. The lender also must not attempt to collect on the loan.
[§682.402(h)(3)]

## 14.4.B
## Refile Deadline

#### Bankruptcy Claims

Failure to refile a bankruptcy claim by the 30th day after the lender's receipt of the original return described in Subsection 13.2.A 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.
[§682.302(d)(1)(vii); §682, Appendix D, 1.E.2]

### Closed School, Death, False Certification, Ineligible Borrower, Spouses and Parents of Victims of September 11, 2001, and Total and Permanent Disability Claims

Failure to refile a closed school, death, false certification, ineligible borrower, spouses and parents of victims of September 11, 2001, or total and permanent disability 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 lender does not refile the claim by the 60th day, the guarantor will pay the claim, 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.
[§682.302(d)(1)(vii)]

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 refiles 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 refiles 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 refiles 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 refiles 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 refiles 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.

### Default Claims

The refiling 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 refile 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 refile the claim if the default remains unresolved after the loan has been cured (see Subsection 14.5.D).
[§682.302(d)(1)(vii); §682.406(a)(6)]

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 refiled on or before the 60-day refiling deadline. Failure to refile 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 refiles 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 refiles 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 refiles the claim on or before the 30th day after its receipt of the second or subsequent return. Failure to refile 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 refiles 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 refiles 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.

## 14.5 Cures and Reinstatement of the Guarantee

A lender may have the guarantee on a loan reinstated by curing the applicable violation, except in the circumstances noted in the preceding Section 14.3. 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 the lender submits a default claim 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.
[§682, Appendix D, I.D. and E.]

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 (see Section 14.6), completing this cure does not result in reinstatement of the guarantee on the loan.

### Receipt of a Curing Payment

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, I.A.; DCL 96-L-186/96-G-287, Q&A #63]

### Receipt of a New Signed Repayment Agreement

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.
[§682, Appendix D, I.D.]

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.

### Reinstating the Guarantee

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 no later than

60 days after 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. [§682, Appendix D, I.D.]

The National Student Loan Data System (NSLDS) requires at least quarterly, or more frequently if the guarantor collects loan status changes more frequently, the reporting of the loss of a loan's guarantee and the reinstatement of the guarantee. Since some guarantors do not extract data from NSLDS reports as system updates, the lender must ensure that the guarantor is informed at the time each of the following events occur or are identified:

- The guarantee on a loan is lost.
- The guarantee on a loan is subsequently reinstated.

Should the lender subsequently file a claim with the guarantor on a cured loan, the lender must include the curing instrument or a legible copy of the curing instrument in the claim file.

#### Timing

A lender may begin cure activities immediately upon discovery of a loss of guarantee. However, 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 the lender receives a full payment or a signed repayment agreement or, in the case of ICA/location cure, 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.
[§682, Appendix D, I.B.4.; DCL 96-L-186/96-G-287, Q&A #72]

## 14.5.A 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 the lender receives 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) 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.

## 14.5.B Cures for Due Diligence Violations and Gaps

If a loan's guarantee has been canceled as a result of due diligence violations or gaps, cure procedures must be performed if the lender wishes to have the guarantee on the loan reinstated. The severity of the violations or gaps determines which cure 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 (rather than the cure for timely claim filing violations).

If there have been three violations of at least 6 days or more each (21 days or more in the case of a transfer) and no gaps of 46 days (61 days or more in the case of a transfer), the guarantee on the loan may be reinstated through one of the following:

- The receipt of a full payment.
  [§682, Appendix D, I.D.]
- The receipt of a new repayment agreement signed by the borrower.
  [§682, Appendix D, I.D.]
- Location of the borrower and completion of the intensive collection activities (ICA)/location cure (see Section 14.6).
  [§682, Appendix D, I.E.]

Completion of the ICA/location cure alone does not reinstate the loan's guarantee. However, the lender may file a default claim with the guarantor and if all applicable

servicing requirements have been met, the lender will receive a claim payment with applicable interest penalties (see Subsection 13.3.D).

If there have been more than three violations of at least 6 days or more each (21 days or more in the case of a transfer) or a gap of 46 days or more (61 days or more in the case of a transfer), the guarantee on the loan may be reinstated through one of the following:

- The receipt of a full payment.
- The receipt of a new repayment agreement signed by the borrower.

If the lender obtains 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 and resume servicing the loan (see Section 14.5). [§682, Appendix D, I.D.]

Some guarantors have additional policies on curing due diligence violations. These policies are noted in Appendix C.

## 14.5.C Cures for Missing Payment History

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. The lender may bill for interest benefits and special allowance 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.

The lender must refund to the Department interest benefits and special allowance payments received from the date of the earliest unexcused violation through the date of the cure. 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 alternate policies regarding the acceptability of missing payment history cures. These policies are noted in Appendix C.

## 14.5.D Cures for Timely Filing Violations

If a lender incurs a timely filing violation on a default claim, the guarantee on the loan may be reinstated through one of the following:

- The receipt of a full payment.
  [§682, Appendix D, I.D.]
- The receipt of a new repayment agreement signed by the borrower.
  [§682, Appendix D, I.D.]
- Successful completion of the intensive collection activities (ICA)/location cure (see Section 14.6).
  [§682, Appendix D, I.E.]

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 Section 14.5, the lender must treat the loan as current, establish a next payment due date that is no later than 60 days after 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 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.

## 14.6 Intensive Collection Activities (ICA)/ Location Cures

Completion of the intensive collection activities (ICA)/ location cure does not reinstate a loan's guarantee. However, if the lender completes all of the required activities for an eligible borrower's loan, the default claim that is filed as part of step 6 (see next page) is purchased by the guarantor with an interest penalty if all applicable servicing requirements have been met. The lender must complete the following activities as part of the ICA/location cure:

1. Locate the borrower through certification of the borrower's 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 was not returned as undeliverable as of the date the default claim is filed on the cured loan.

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.

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 borrower is located, the lender must include a copy of the certification of borrower location in any subsequent ICA/location claim file.

If the lender discovers that the borrower's telephone number is invalid while performing the ICA/location cure, the lender must attempt to obtain a valid number as it continues performing the remaining collection activities, as required in the ICA/location cure.

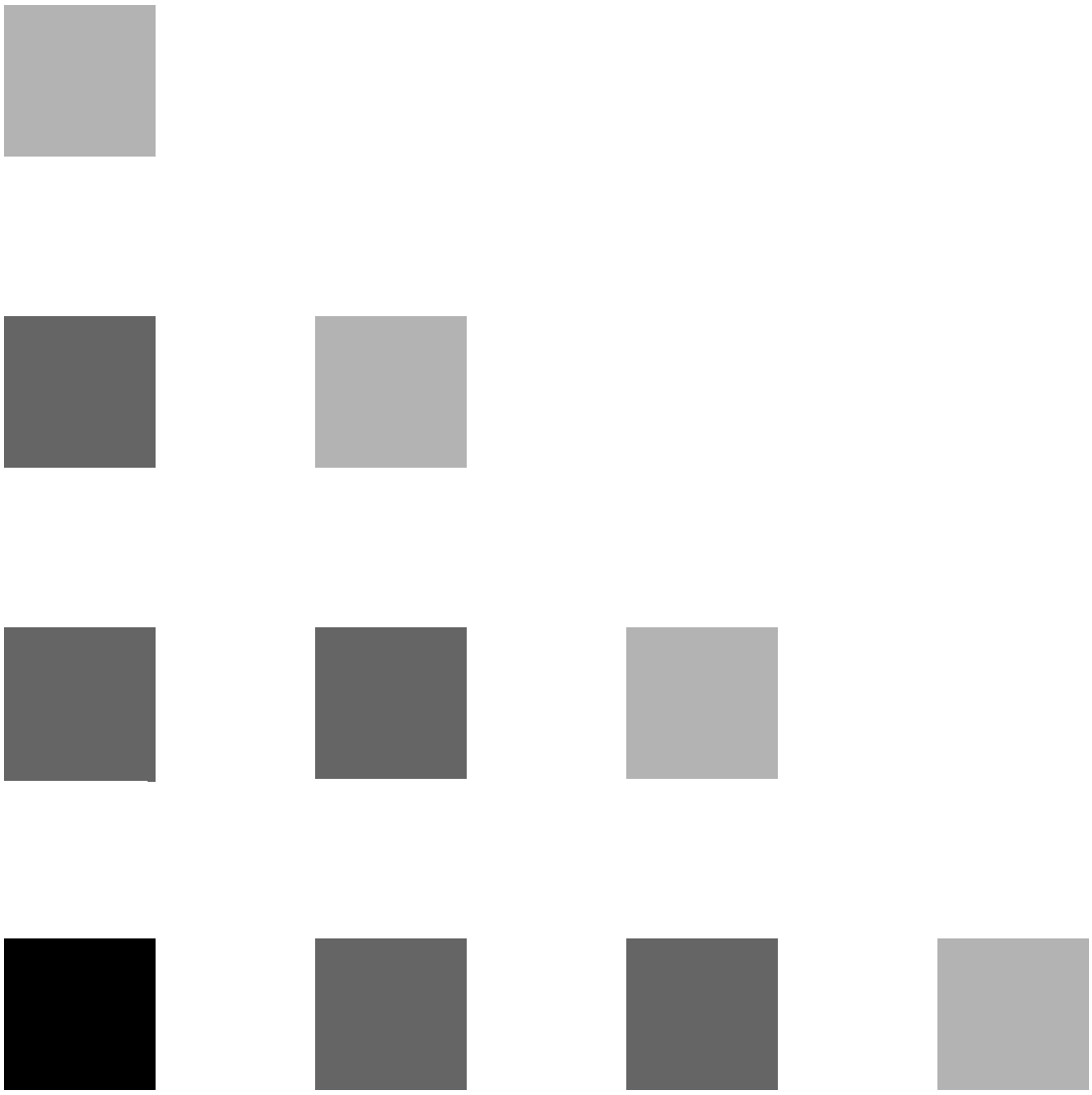
The lender must complete the entire cycle of collection activities required under this cure. If the lender has exhausted its efforts to obtain a valid number, telephone attempts to contact the borrower are not required, but the lender must send the required collection letters. The letters may be sent according to the regular ICA/location cure 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.
[§682, Appendix D, I.E.]

# Tab Locator Page

## Remove this page and replace with tab divider.

# Tab Locator Page

## Remove this page and replace with tab divider.



# 15 Federal Consolidation Loans


| | | |
|---|---|---|
| 15.1 | Lender Participation | 1 |
| 15.1.A | Agreement to Guarantee Federal Consolidation Loans | 1 |
| 15.1.B | Certificate of Comprehensive Insurance Coverage | 2 |
| 15.1.C | Notifying the Guarantor | 2 |
| 15.2 | Borrower Eligibility and Underlying Loan Holder Requirements | 3 |
| 15.3 | The Application Process | 6 |
| 15.3.A | Providing Consolidation Loan Information | 6 |
| 15.3.B | Completing the Application | 7 |
| 15.3.C | Reviewing the Loan Verification Certificate | 7 |
| 15.3.D | Calculating the Interest Rate | 8 |
| 15.4 | Disbursement | 11 |
| 15.5 | Repayment | 11 |
| 15.5.A | Establishing the First Payment Due Date | 12 |
| 15.5.B | Disclosing Repayment Terms | 12 |
| 15.5.C | Maximum Repayment Period | 12 |
| 15.5.D | Deferments | 14 |
| 15.5.E | Forbearance | 15 |
| 15.5.F | Delinquency, Claim Filing, Loan Forgiveness, and Discharge | 15 |
| 15.5.G | Paid-in-Full Loans | 15 |
| 15.6 | Interest Benefits and Special Allowance | 16 |
| 15.7 | Interest Payment Rebate Fee | 16 |
| 15.8 | Direct Consolidation Loan Program Treatment of Underpayments and Overpayments | 17 |

This page intentionally left blank.

Chapter 15 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.

## 15.1 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.

## 15.1.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.
  [§682.206(b)]

- To secure information on the outstanding balance of each eligible loan to be consolidated before including it in the Consolidation loan.
  [§682.206(f)]

- To pay the full proceeds of each outstanding loan to the appropriate holder(s).

- To pay a 1.0% lender 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 15.7).
  [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]

Although the subsidized, unsubsidized, and HEAL portions of a single Consolidation loan may appear as separate loan servicing records on the lender's system, the lender must ensure that the Consolidation loan is administered as a single Consolidation loan. Lenders and servicers are expected to maintain adequate internal controls and procedures to ensure that all portions of the single Consolidation loan remain synchronized throughout the life of the loan, and any re-synchronization occurs in a timely manner to ensure that the loan maintains a single due date and amount. The guarantor may examine the lender's controls, procedures, and servicing history during a program review. Lenders must diligently service Consolidation loans in accordance with provisions applicable to other FFELP loans. 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 and special allowance payments that might otherwise apply (see Sections 12.4 and 15.6).

#### 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. However, if the lender elects to consolidate defaulted Title IV loans, the borrower must first make satisfactory arrangements with the loan holder to repay the defaulted loan, or agree to repay the Consolidation loan under an income-sensitive repayment schedule (see Section 15.2).
  [§682.201(d)(1)(i)(A)(3)]
- 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]

## 15.1.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.

## 15.1.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.

## 15.2 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 be in the grace period or have entered repayment on each loan chosen for consolidation.
  [§682.201(d)(1)(i)(A)(1) and (2)]

- 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 or income-based repayment schedule. Satisfactory repayment arrangements for consolidation purposes are defined later in this section. The income-sensitive repayment schedule is described in Subsection 10.8.C; the income-based repayment schedule is described in Subsection 10.8.D.
  [§682.201(d)(1)(i)(A)(3)]

See Section H.4 for information about a statutory or regulatory waiver authorized by the HEROES Act that may impact these requirements.

The following additional criteria must be met in order for a borrower to receive a Federal Consolidation loan. By completing and signing the common Federal Consolidation Loan Application and Promissory Note, the borrower certifies that he or she meets those eligibility criteria that are specifically required by statute and regulations to be certified. Separate certifications are not necessary.

- A borrower may not consolidate a loan for which the borrower is wholly or partially ineligible due solely to the borrower's error (see Subsection 5.17.A). However, a borrower with an ineligible loan may consolidate another eligible loan(s).
  [§682.201(d)(2)]

- A borrower must not be subject to a judgment secured through litigation or an order of administrative wage garnishment on a Title IV loan that is being considered for consolidation. If the judgment has been vacated or the wage garnishment order has been lifted, the loan is eligible for consolidation and eligible for inclusion in an existing Consolidation loan during the 180-day add-on period (see "Adding Loans After Consolidation" later in this section).
  [HEA §428C(a)(3)(A)(i); §682.201(d)(1)(i)(B) and (C)]

- A borrower must certify that he or she does not have another Federal Consolidation loan or Direct Consolidation loan application pending.
  [§682.201(d)(1)(ii)]

- A borrower must agree to notify the holder of address changes.
  [§682.201(d)(1)(iii)]

- A borrower must certify that he or she does not owe a refund on a Pell, SEOG, or LEAP grant and that all loans being consolidated were used to finance the education of the borrower or the borrower's child.

- A borrower may request consolidation from any participating consolidation lender, regardless of whether the consolidating lender is a holder of any of the borrower's loans.
  [HEA §428C(b)(1)(A); §682.102(d)]

- A guarantor will guarantee a Consolidation loan only if the borrower 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.

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, spouses and parents of victims of September 11, 2001, disability, closed school, or 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 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 benefits and special allowance collected on that loan from the date of disbursement must be refunded.

Some guarantors have additional eligibility requirements and restrictions on Consolidation loans. These requirements and restrictions are noted in Appendix C.

#### Consolidating to Obtain Direct Loan Benefits

A borrower who has a FFELP loan(s) may obtain a Direct Consolidation loan for the purpose of obtaining certain Federal Direct Loan Program (FDLP) benefits. These benefits include the following:

- Using the Public Service Loan Forgiveness Program.
  [HEA §428C(a)(3)(B)(i)(V)(bb); §682.201(e)(5)]

- Using the no accrual of interest for active duty servicemembers benefit.
  [HEA §428C(a)(3)(B)(i)(V)(cc); §455(o); DCL GEN-08-12/FP-08-10]

#### Obtaining a Subsequent Consolidation Loan

A borrower who currently has either a Federal or a Direct Consolidation loan is not eligible for a subsequent Federal or Direct Consolidation loan unless the borrower meets one of the following conditions:

- The borrower is consolidating an eligible loan(s) obtained before or after the date the existing Consolidation loan was made to form a separate Consolidation loan.

- The borrower is consolidating an existing Consolidation loan with at least one other eligible loan, including another eligible Consolidation loan, regardless of whether that eligible loan was made before or after the date the existing Consolidation loan was made.
  [HEA §428C(a)(3) and (a)(4); §682.201(e)(2) and (3); DCL GEN-06-20/FP-06-16]

A borrower who currently has a Federal Consolidation loan and does not meet one of the above conditions is not eligible for a subsequent Federal Consolidation loan, but may be eligible for a subsequent Direct Consolidation loan if the borrower meets one of the following conditions:

- The borrower's consolidation loan holder has requested default aversion assistance from the guarantor, or if the loan is already in default, and the borrower is seeking an income-contingent or income-based repayment schedule.
  [HEA §428C(a)(3)(B)(i)(V)(aa)]

- The borrower has filed an adversary complaint in a bankruptcy proceeding and is seeking an income-contingent repayment schedule.
  [HEA §428C(a)(3)(B)(l); DCL GEN-06-20/FP-06-16]

- The borrower wants to use the FDLP's Public Service Loan Forgiveness Program.
  [HEA §428C(a)(3)(B)(i)(V)(bb); §682.201(e)(5)]

- The borrower wants to use the no accrual of interest for active duty servicemembers benefit.
  [HEA §428C(a)(3)(B)(i)(V)(cc); §455(o); DCL GEN-08-12/FP-08-10]

If the borrower meets all eligibility requirements, any or all outstanding eligible loans may be consolidated, including existing Consolidation loans and loans made before or after any existing Consolidation loan.
[§682.201(e)(2) and (3)]

#### 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]).

1. A borrower may not reconsolidate a single Consolidation loan.

- FDLP loans (Stafford, PLUS, and Consolidation loans[1]).
- FISL loans.
- Perkins loans.
- Health Professions Student Loans (HPSL), including Loans for Disadvantaged Students (LDS).[1]
- Nursing Student Loans (NSL).[2]
- Health Education Assistance Loans (HEAL).[2]
[§682.100(a)(4)]

### Consolidating Defaulted Title IV Loans

A defaulted Title IV loan is eligible for consolidation if the borrower, at the time of application for the Consolidation loan, meets one of the following conditions:

- The borrower has made satisfactory repayment arrangements with the holder of the defaulted loan.
- The borrower 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 10.8.C.
[§682.200(b); §682.201(d)(1)(i)(A)(3); §682.209(a)(6)]

### 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 makes a request within 180 days of the date the Consolidation loan is made. A borrower who wishes to add eligible loans to a Consolidation loan must complete and return the *Request to Add Loans* form to the lender so that it is received by the lender within 180 days of the date the original Consolidation loan was 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.
[§682.201(e)(1)]

Lenders should note and inform borrowers that the interest rate and repayment terms on a Consolidation loan may be affected by adding loans. The lender must disclose new repayment terms to the borrower, if the terms of the borrower's Consolidation loan change due to the addition of loans within the 180-day add-on period. A consolidating lender must perform due diligence activities at a loan level, even if the lender establishes an additional loan servicing record for the add-on portion of the loan. That is, the lender must perform due diligence activities on a single payment due date and amount for the single Consolidation loan that contains multiple loan servicing records. (See Section 12.4 for more information on due diligence requirements.) 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.

1. See Subsection 15.1.A. for information on nondiscrimination and permissible practices.

## 15.3 The Application Process

Neither the guarantor nor the lender may charge the borrower a federal default fee (or 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.
[§682.401(b)(12); §682.505(a)]

▲ Lenders may contact individual guarantors for further information on applicable fees. See Section 1.5 for contact information.

## 15.3.A Providing Consolidation Loan Information

The lender must disclose all of the following information to a prospective Consolidation loan borrower in simple and understandable terms, at the time the lender provides a Consolidation application:

- For a borrower who is considering consolidating a FFELP or Direct loan(s), whether consolidation would result in a loss of loan benefits, including, but not limited to, loan forgiveness, cancellation, deferment, or a reduced interest rate, through the FFELP or the Federal Direct Loan Program (FDLP).

- For a borrower who is considering consolidating a Federal Perkins loan(s), each of the following:

  – That the borrower will lose all interest-free periods that would have been available for the Federal Perkins Loan Program (e.g., the period during which no interest accrues on the loan while the borrower is enrolled in school at least half time, during the initial grace period, and during the periods in which the borrower is eligible for deferment).

  – That the borrower will no longer be eligible for public service cancellation of all or a portion of the Federal Perkins loan.

  – The occupations that qualify for Federal Perkins loan cancellation.

- The repayment plans that are available to the borrower.

- The options for the borrower to prepay the Consolidation loan, to pay the loan on a shorter repayment period, and to change repayment plans.

- That borrower benefit programs for a Consolidation loan may vary among different lenders.

- The consequences of default on the Consolidation loan.

- That by applying for a Consolidation loan, the borrower is not obligated to take the Consolidation loan.

- The process and deadline for canceling the Consolidation loan (see Section 15.4).

[HEA §428C(b)(1)(F); §682.205(i)]

Lenders may also wish to provide the following types of information.

*Checklist*
Including a checklist can be helpful in guiding the borrower through the Consolidation loan application process.

*Explanation of Consolidation Benefits and Costs*
An explanation of consolidation benefits and costs may include:
- The benefits of consolidation to the borrower.
- The special benefits the lender offers on Federal Consolidation loans, and the criteria for obtaining those benefits.
- Borrower eligibility requirements.
- The types of loans that may be consolidated.
- The interest rate calculation.
- Deferment options.
- The borrower's cost for consolidation.
- An explanation of the consolidation process.

*Worksheet or Web Page*
A Federal Consolidation loan worksheet or Web page 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, extended, income-sensitive, and income-based 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 may include instructions for completing the Federal Consolidation Loan Application and Promissory Note and, if the note is available electronically, a link to the appropriate Website.

## 15.3.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. [§682.102(d); §682.206(b)]

## 15.3.C
## Reviewing the Loan Verification Certificate

In general, prior to the disbursement of a Federal Consolidation loan, the consolidating lender must obtain certification from the holder of each loan to be consolidated. The common Loan Verification Certificate (LVC) form approved by the Department meets the requirements for loan certification. The consolidating lender may rely on the 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 holder is the consolidating lender, that party is not required to complete an LVC. 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 during a program review. [§682.206(f)]

An LVC may be included with application materials or may be generated by the consolidating lender. The borrower's authorization for the release of information is included on the application form.

### Certifying the LVC

When certifying the LVC, the holder must:

- Verify or complete the applicable information for each eligible 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. [§682.401(b)(27)]

An authorized official of the holder must sign the LVC certifying that:

- The information on the form is accurate and complete.
- Each loan listed is a legal, valid, and binding obligation of the borrower.
- Each loan was made and serviced in compliance with all applicable laws and regulations.
- For Federal Stafford, Federal PLUS, Federal SLS, Federal Consolidation, and Federal Insured Student Loans, the insurance on each such loan is in full force and effect.
- The loan amounts confirmed include only unpaid principal, unpaid accrued interest for which the borrower is responsible, late charges, and eligible collection costs.

### Circumstances That May Prevent the Loan Holder from Certifying the LVC

The holder of each loan to be consolidated must respond to the LVC within 10 business days from the date the LVC is received. If the holder is unable to certify to the matters described above, the holder must provide the consolidating lender and the guarantor(s) of the loan(s) listed on the form with a written explanation of the circumstances preventing the loan holder from certifying the LVC. [§682.206(f); §682.209(j)]

If there is a technical issue that will result in a delay of the loan holder's certification of the LVC, the loan holder must inform the consolidating lender within 10 business days of receipt of the LVC that a delay will occur. [DCL FP-04-02]

If a loan holder receives an LVC that does not include the name and, in the case of a FFELP lender, the lender identification number (LID) of the eligible consolidating lender or trustee lender, it should not provide any information related to a borrower's loan. The loan holder should instead provide a written explanation to inform the requestor as to why it is not completing the LVC.

Other circumstances that may prevent a holder from completing the LVC include those in which:

- The loan holder never held the loan.
- The loan is not fully disbursed or the borrower is not in grace or repayment status.
- The loan has been sold.
- The loan is more than 270 days delinquent and a default claim has been submitted to the guarantor.
- The loan has been assigned to the guarantor.
- The loan is subject to collection by administrative wage garnishment.
- There is a judgment against the borrower on the loan for which the borrower has requested consolidation.
- The loan is a joint Consolidation loan. A joint Consolidation loan may not be included in a subsequent Federal or Direct Consolidation loan under any circumstances.
  [DCL FP-09-03]

If the loan holder is unable to certify the LVC due to one of these circumstances, the loan holder must provide a written explanation to the consolidating lender within 10 business days of the loan holder's receipt of the LVC.
[§682.209(j); DCL FP-04-02]

For each of the following additional circumstances, within 10 business days of the loan holder's receipt of the LVC, the loan holder must provide to the consolidating lender a written explanation as to why the LVC is not being completed, and also must notify the Federal Student Aid Financial Partners staff of the holder's decision not to complete the LVC. These additional circumstances are:

- Within the last 90 days, the loan holder has completed an LVC on the loan for another lender, indicating that the borrower may have more than one Consolidation loan application outstanding.
- The borrower appears to have no eligible loans other than a single Consolidation loan that is held by the loan holder. However, an LVC from the Federal Direct Loan Program (FDLP) must be completed within the required timeframes, unless the Consolidation loan is a joint Consolidation loan.
  [DCL FP-09-03]

For the two additional circumstances listed above, once the loan holder provides the consolidating lender with an explanation of why the LVC is not completed, if the consolidating lender provides additional information to the loan holder that supports the borrower's eligibility to consolidate the loans, the holder must complete the LVC within 10 business days of receipt of that information. Supporting information may include the following:

- For the first circumstance noted above, a written statement from the borrower stating that he or she has canceled any previous Consolidation loan applications.
- For the second circumstance, documentation from the consolidating lender showing that the borrower has one or more additional loans that will be consolidated with the Consolidation loan.
  [DCL GEN-07-03/FP-07-07]

## 15.3.D
## Calculating the Interest Rate

Interest rates applicable to Consolidation loans are listed in the table on the following page. In addition, a Consolidation loan made to a borrower who subsequently enters qualifying military service may be eligible for a reduced interest rate.

## Consolidation Loan Interest Rates — Figure 15-1

| 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(f)(1)] | 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)] |
| 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 up 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.

### 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:*
[§682.202(a)(4)(iv)]

**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 one-eighth of one percent, not to exceed 8.25%.

Example: 7.377% is rounded up to 7.5%

If a Consolidation loan borrower qualifies under Section 207 of the Servicemembers Civil Relief Act (SCRA) and requests a lower interest rate in writing, the lender is required to reduce the interest rate on any loan that is accruing interest at a higher rate so that it does not charge the borrower an interest rate that exceeds 6% for the period of the borrower's military service occurring on or after August 14, 2008. The borrower must provide the lender with a copy of initial military orders and any orders that extend his or her military service not later than 180 days following the last date of the applicable period of military service. The Consolidation loan must have been made before the eligible borrower entered qualifying military service. The loan is considered "made" for this purpose on the date that the Consolidation loan itself was disbursed, and not the dates on which the underlying loans were disbursed.
[HEA §428(d); HEA §438; DCL GEN-08-12/FP-08-10; *Federal Register* dated July 23, 2009, p. 36565]

When the borrower's or comaker's period of military service ends, the lender is not permitted to assess any additional charge or fee to compensate for the difference between the applicable interest rate and the maximum permissible charges under the SCRA.
[*Federal Register* dated July 23, 2009, p. 36565]

For purposes of this provision, the maximum interest rate must take into consideration any amount of service charges, renewal charges, fees, or any other charges (except for actual insurance) with respect to the Consolidation loan. The 6%-rate is applicable to any Consolidation loan on which the servicemember is the only borrower or on any joint obligation where one borrower or each of the borrowers on a comade (spousal) Consolidation loan qualifies as an eligible servicemember. The borrower must request the reduced rate in writing and provide to the lender a copy of initial military orders and any orders that extend his or her military service. The borrower must provide the request and documentation not later than 180 days following the last date of the borrower's military service. See Subsection 10.9.B for more details regarding the parameters for granting the reduced interest rate.
[HEA §428(d); DCL GEN-08-12/FP-08-10]

Also, a lender may choose to charge a borrower an interest rate that is lower than the maximum interest rate permitted by statute (the statutory rate). If the lender charges the lower rate, the lender must ensure that reports issued to the Department (such as the Lender's Interest and Special Allowance Request and Report [LaRS report]) are adjusted. See Appendix A for more information on LaRS reporting.
[§682.202(a)(5)]

If a lender chooses to charge a lower interest rate, it 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 revocation of the lower interest rate at the point of default does not apply to an interest rate that is reduced as a result of the SCRA. 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.

## 15.4 Disbursement

Upon receiving the borrower's signed application and promissory note and completed loan verification certificates (LVCs) from the holder(s) of all the loans to be consolidated and prior to making any payments to the holders of the underlying loans, the lender must notify a borrower of his or her option to cancel a Consolidation loan. The lender must also provide the borrower a deadline of at least 10 days from the date of the notice to notify the lender that he or she wishes to cancel the loan. If the lender does not receive the cancellation request from the borrower on or before the deadline, and the lender has received the necessary signed notes and LVCs, the lender may disburse the Consolidation loan. 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 LVC), and collection costs, as applicable.
[§682.206(f)]

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, or the application receipt date, is used to determine its terms and conditions.

The first disbursement date for the Consolidation loan, or the application receipt date, establishes the terms and conditions for every loan servicing record established under a single promissory note for the borrower. For loan guarantee purposes, the single Consolidation loan application and promissory note represents a single Consolidation loan. The lender must ensure that all servicing aspects for the multiple portions of the loan remain synchronized. Failure to establish and maintain a single repayment schedule, and a first and next payment due date, and to consistently apply deferment, forbearance, and loan discharge provisions may result in the loss of the entire loan's guarantee. (See Subsection 14.1.E "Violations and Cures Associated with Unsynchronized Servicing of a Consolidation Loan with Multiple Loan Records.")

Upon receiving sufficient proceeds from the consolidating lender, the holder of each loan being consolidated must promptly apply the proceeds to pay 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 paid in full.
  [§682.209(h)(5)]

- Report the payment in full to at least one appropriate nationwide consumer reporting agency.
  [§682.208(b)(1)]

- Report to the loan's guarantor that the loan has been paid in full by consolidation.
  [§682.209(h)(5)]

## 15.5 Repayment

A Federal Consolidation loan enters repayment on the date the loan is disbursed. 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.
[§682.102(e)(5); §682.209(a)(1); §682.209(h)(1)]

Lenders must offer Consolidation loan borrowers the choice of a standard, graduated, income-sensitive, income-based or, if applicable, an extended repayment schedule. See Section 10.8 and Subsection 10.6.D for more information on these repayment schedules and minimum payment requirements.
[§682.209(a)(6)]

## 15.5.A
## Establishing the First Payment Due Date

A lender must establish the first payment due date on a Consolidation loan that is no later than:

- 60 days after the date of the last disbursement that pays underlying loans in full.
  [§682.102(e)(5); §682.209(a)(1); §682.209(h)(1)]

- 60 days after the last day of a deferment or forbearance period, unless the borrower makes a prepayment during this period that advances the due date (see Subsections 10.11.B and 10.11.D). For more information about establishing repayment after a deferment or forbearance period, see Subsections 11.1.I and 11.20.J, respectively.
  [§682.209(a)(3)(ii)(B)]

A consolidating lender must establish a single payment due date and amount for the single Consolidation loan, even if the lender establishes an additional loan servicing record for the add-on portion of the loan. In addition, a consolidating lender must establish a single repayment schedule with one first payment due date, even if the lender establishes more than a single loan servicing record for the subsidized, unsubsidized, and HEAL portions of the loan. The lender must ensure that all servicing aspects for the multiple portions of the loan remain synchronized.

## 15.5.B
## Disclosing Repayment Terms

The lender must disclose repayment terms for a Federal Consolidation loan to the borrower at the time the loan is disbursed. For more information on repayment disclosure requirements, see Section 10.7.
[§682.205(c)]

If the terms of a borrower's Consolidation loan change due to the addition of a loan(s) within the 180-day add-on period, a lender must disclose new repayment terms to the borrower. A lender may establish a new effective date for a revised payment amount that is no more than 60 days after the last disbursement that paid the add-on loan(s) in full. The lender must disclose to the borrower a single payment due date and amount for the single Consolidation loan that contains multiple records.
[§682.102(e)(5)]

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.
[§682.202(g); §682.401(b)(27)]

## 15.5.C
## 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 to a borrower by an organization under a public or private student loan program exclusively for the purpose of financing the borrower's or a dependent student'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 15.2).
[§682.209(h)]

*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 the table on the next page.

## Maximum Repayment Periods for Consolidation Loans — Figure 15-2

| 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) and (h)(3)]

**A "new borrower" on or after October 7, 1998, with an outstanding balance of principal and interest in FFELP loans totaling more than $30,000, may select an extended repayment schedule that allows for a repayment period not to exceed 25 years. [§682.209(a)(6)(ix)]

# 15.5.D Deferments

A Federal Consolidation loan borrower's deferment eligibility is based on the following factors:

- The date the borrower's Consolidation loan is made.
- 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.
[§682.210(a)(11)]

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 Subsection 11.1.A and in Sections 11.2 to 11.19.

### "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:
[§682.210(s)(1)]

- *Education-Related Deferments*

  When the borrower is enrolled at least half time at an eligible school (Section 11.6), pursuing a graduate fellowship program (see Section 11.5), or engaged in a rehabilitation training program (see Section 11.14).
  [§682.210(s)(2) through (4)]

- *Unemployment Deferments*

  When the borrower is conscientiously seeking, but unable to secure, employment (see Section 11.18).
  [§682.210(s)(5)]

- *Economic Hardship Deferments*

  When the borrower is experiencing economic hardship (see Section 11.4).
  [§682.210(s)(6)]

### 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 Section 11.6).

- *Education-Related Deferments*

  When the borrower is engaged in an eligible graduate fellowship program (see Section 11.5) or rehabilitation training program (see Section 11.14).

- *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 Section 11.17).

- *Unemployment Deferments*

  When the borrower is conscientiously seeking, but unable to secure, employment (see Section 11.18).
  [§682.210]

A lender must establish a first payment due date that is no more than 60 days after the last day of a deferment period (see Subsection 15.5.A).
[§682.209(a)(3)(ii)(B)]

## 15.5.E 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 11.20).

A lender must establish a first payment due date that is no more than 60 days after the last day of a forbearance period (see Subsection 15.5.A).
[§682.209(a)(3)(ii)(B)]

## 15.5.F Delinquency, Claim Filing, Loan Forgiveness, and Discharge

The due diligence, and default and bankruptcy claim filing requirements for a Federal Consolidation loan are identical to those applicable for other FFELP loans. Loan forgiveness and discharge provisions, and discharge claim filing requirements, however, may be different for a Consolidation loan, as follows:

- For Consolidation loan discharge provisions due to closed school and false certification, see Subsections 13.8.B and 13.8.D, respectively.

- For Consolidation loan forgiveness due to teacher loan forgiveness, the Consolidation loan must not include a FFELP or FDLP loan that was first disbursed before October 1, 1998. See Subsection 13.9.A for teacher loan forgiveness provisions for Consolidation loans.

- For Consolidation loan forgiveness under the income-based repayment (IBR) plan, the Consolidation loan must not include a FFELP or Direct parent PLUS loan. See Subsection 13.9.D for information on loan forgiveness under IBR for Consolidation loans.

- For Consolidation loan discharge provisions due to an unpaid school refund, see Subsection 13.8.H.

- For Consolidation loan discharge provisions due to the death of one spouse in the case of a joint Consolidation loan, or for the portion of a Consolidation loan attributable to an underlying PLUS loan that was made for a dependent student who dies, see Subsection 13.8.C.
  [§682.402(a)(2) and (b)(6); §685.212(a)(3); §685.220(l)(3)(i)]

- For Consolidation loan discharge provisions due to spouses and parents of victims of September 11, 2001, discharge, see Subsection 13.8.F.

- For Consolidation loan discharge provisions 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.

  If a Consolidation loan is made jointly to two spouses as comakers, the portion of the Consolidation loan attributable to one of the spouses may be discharged if that spouse becomes totally and permanently disabled. See Subsection 13.8.G for more information regarding the discharge of all or a portion of a Consolidation loan due to total and permanent disability.
  [§682.402(a)(2) and (c)(1)(iv); §685.220(l)(3)(ii)]

## 15.5.G Paid-in-Full Loans

When a Federal Consolidation loan is paid in full by the borrower, the lender must either return the original or a true and exact copy of the promissory note to the borrower, or notify the borrower that the loan is paid in full.
[§682.414(a)(5)(iii)]

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 not less than 3 years after the date on which the loan is paid in full by the borrower and not less than 5 years after the date the lender receives payment in full from any other source. In addition, the lender must report to the guarantor the paid-in-full status of the loan. See Subsection 3.4.A for information on recordkeeping and Section 3.5 for information on lender reporting.
[§682.414(a)(2); §682.414(a)(5)]

## 15.6
## 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, excluding any portions derived from HEAL loans.
[§682.301(a)(3)(i)]

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.
[HEA §428C(b)(4)(C); §682.301(a)(3)(ii); §685.220(c)]

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 FFELP loan or an underlying subsidized Direct loan. The borrower is responsible for interest payment during periods of authorized deferment on all other portions of a Consolidation loan.
[§682.301(a)(3)(iii); §685.220(c)]

On or after July 1, 2009, the subsidized portion of a Consolidation loan is eligible for federal interest benefits to pay accruing interest during a consecutive 3-year period if the borrower's scheduled monthly partial financial hardship (PFH) payment amount under the income-based repayment (IBR) plan is less than such accruing interest. This consecutive 3-year period begins on the established repayment period start date when each loan enters IBR and excludes any period during which the borrower receives an economic hardship deferment.
[§682.215(b)(4); §682.300(b)(1)(iv); §685.221(b)(3)]

See Appendix A for more information on interest benefits.

### Special Allowance

The formula for calculating the applicable special allowance rate on a Federal Consolidation loan is determined based on when the loan was made or, as applicable, when the application was received by the consolidating lender. For example, a Consolidation loan made on or after October 1, 1992, from an application received by the consolidating lender before January 1, 2000, would be eligible for special allowance based on the applicable T-bill rate plus 3.10%. A Consolidation loan made from an application received by the consolidating lender on or after January 1, 2000, is eligible for special allowance based on the applicable 3-month commercial paper rate plus 2.64%. See Subsection A.2.A for more information on special allowance formula components and the factors that affect the calculation of special allowance for Consolidation loans.
[§682.302(c)]

The portion of a Consolidation loan attributable to a HEAL loan is not eligible for special allowance.
[HEA §428C(d)(3)(A)]

## 15.7
## 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.
[HEA §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 send its monthly Consolidation loan rebate fee payment to the Department electronically using the Automated Clearinghouse (ACH). The holder may remit payments electronically through Federal Student Aid's Financial Management System using the Pay.gov functionality, and including the FFEL Consolidation Loan Rebate Fee Report and Remittance Form.
[Financial Management System FFEL Lender Reporting System *Pay.gov Funds Remittance Guide,* Version 3.2, dated September 22, 2008]

Alternatively, a holder may remit its monthly fee by check payable to the "U.S. Department of Education," with the notation "Consolidation loan fee." The check and the FFEL Consolidation Loan Rebate Fee Report and Remittance Form should be mailed to:

U.S. Department of Education
P.O. Box 979066
St. Louis, MO 63197-9000

[Financial Management System FFEL Lender Reporting System *Pay.gov Funds Remittance Guide,* Version 3.2, dated September 22, 2008]

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 93-G-248; DCL FP-07-11]

## 15.8 Direct Consolidation Loan Program Treatment of Underpayments and Overpayments

Information in this section describes the Department's policy on underpayment and overpayment tolerances of Direct Consolidation Loan payoff amounts sent to the holder(s) of the underlying loan(s). The tolerances described below apply to the aggregate eligible balance of principal, interest, fees, and collection costs. This policy does not apply to payoffs of federally-owned loans serviced by the Department's federal loan servicers.

The underpayment and overpayment tolerances apply to the total of all of the borrower's loans by loan program type (subsidized Stafford loans, unsubsidized Stafford loans, PLUS loans, and Federal Consolidation loans). In other words, there is a tolerance amount for the borrower's subsidized Stafford loan(s), a separate tolerance amount for the borrower's unsubsidized Stafford loan(s), etc.

If a loan holder receives a payoff that is:

- Less than the amount needed to pay in full a borrower's underlying loan(s), the loan holder may apply its own policy for write-off and may apply to the Direct Loan Consolidation Center for any underpayment amount that exceeds the loan holder's policy. Whether the balance is written off or the loan holder requests the additional funds from the Department, the loan holder may not bill the borrower for the underpayment amount and, in both instances, the loan holder must notify the borrower that the loan(s) is paid in full.

- More than the amount needed to pay in full a borrower's underlying loan(s) and that overpayment amount is *less than $10.00,* the loan holder may retain the overpayment.

- More than the amount needed to pay in full a borrower's underlying loan(s) and that overpayment amount is *$10.00 or more,* the loan holder must promptly return the full overpayment amount to the Direct Loan Consolidation Center.

All requests for funds and returns of funds to the Direct Loan Consolidation Center must be made promptly and must include identifiers for each borrower and the specific loan type(s).
[Department letter to loan holders dated July 1998 and Electronic Announcement dated June 28, 2011]

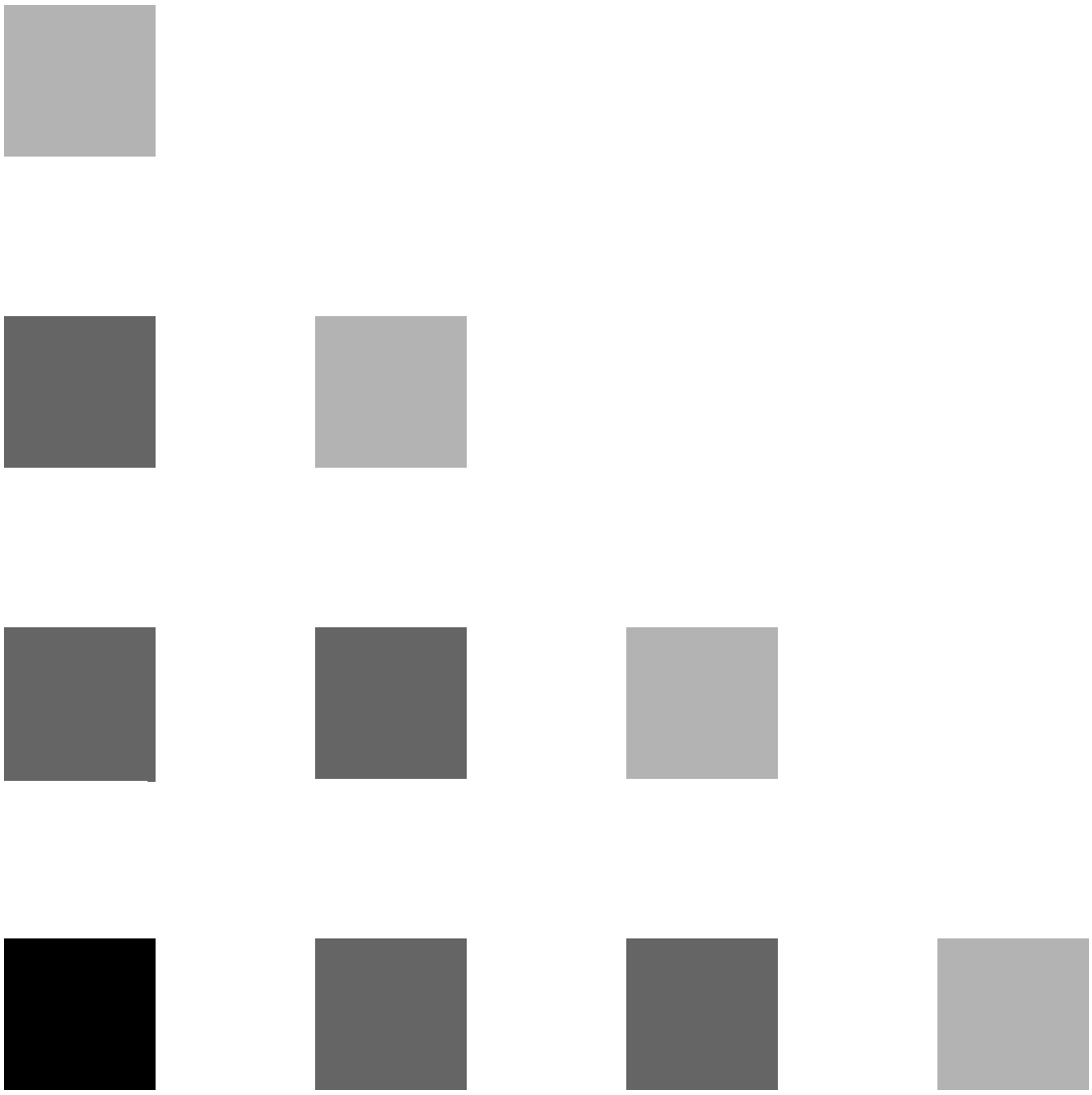
This page intentionally left blank.

# Tab Locator Page

## Remove this page and replace with tab divider.

# Tab Locator Page

## Remove this page and replace with tab divider.



# 16 Cohort Default Rates and Appeals


16.1 Overview of Cohort Default Rates and Terminology ..... 1

16.2 Calculation of School Cohort Default Rates ..... 3

16.3 School Draft Cohort Default Rates and Challenges ..... 8

16.4 School Official Cohort Default Rates, Adjustments, and Appeals ..... 9
16.4.A School Requests for Adjustment ..... 10
16.4.B School Appeals ..... 11

16.5 Consequences of High Official Cohort Default Rates for Schools ..... 14

16.6 Cohort Default Rates for Lenders and Holders ..... 15

This page intentionally left blank.

Chapter 16 provides an overview of the annual cohort default rates calculated by the Department for schools, lenders, and holders participating in the FFELP. Section 16.1 includes an overview of the cohort default rate process and definitions applicable to cohort default rates. Sections 16.2 through 16.5 cover in more detail default rate calculations; the process by which schools can challenge a draft cohort default rate, request an adjustment to an official cohort default rate, or appeal an official cohort default rate; and the consequences of official cohort default rates. The last section of this chapter, Section 16.6, addresses FFELP cohort default rates and appeals for lenders and holders.

Unless otherwise noted, each reference in the Manual to the cohort default rate pertains to the FFELP cohort default rate or the dual-program cohort default rate, as applicable.

## 16.1 Overview of Cohort Default Rates and Terminology

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 introduced to reduce the overall default rate in the federal student loan programs. FFELP cohort default rates for lenders and loan holders 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 dual-program cohort default rate was implemented July 1, 1996, for schools with borrowers entering repayment in both the FFELP and FDLP. (See Section 16.3) A provision in the Higher Education Opportunity Act of 2008 (HEOA) changed the cohort default rate formula by expanding the cohort default period from a two-year period to a three-year period beginning with fiscal year 2009. Until there are three years of three-year rates, there will be a transition period during which schools will receive both two-year and three-year rates. Sanctions based on a high cohort default rate during this period will be based on a school's official two-year rate. Beginning with the publication of the official cohort default rates in calendar year 2014, the Department will use the three-year measure to impose penalties on schools that have high cohort default rates.
[§668.181; §668.206]

A school with a low official cohort default rate may qualify for specific regulatory exemptions, such as more flexible disbursement requirements. A school with persistently or excessively high official cohort default rates may lose FDLP eligibility and may also become ineligible to participate in the Federal Pell Grant Program.

A school may challenge its draft cohort default rate, and may, in some cases, appeal or request an adjustment to its official cohort default rate. Detailed parameters for challenges, appeals, and adjustment requests are defined in federal regulations (subparts M and N of §668) and the Department's *Cohort Default Rate Guide,* and are also outlined in Sections 16.3 and 16.4 of this Manual.

### Cohort Default Rate Terminology

Following are terms used throughout this chapter, defined solely as they pertain to cohort default rates:

- *Cohort*: The group of borrowers who enter repayment during the fiscal year for which the rate is calculated which is used to determine the default rate.
[§668.182(a)]

- *Cohort default rate notification*: The process by which the Department notifies a school of its draft and official cohort default rates. The Department notifies a school of its cohort default rates as follows:

  - The Department uses an electronic cohort default rate (eCDR) process through the Student Aid Internet Gateway (SAIG) to notify a domestic school of its cohort default rates. All domestic schools must designate a SAIG destination point that will receive the school's eCDR notification packages. The designation of the eCDR destination point must be conducted through the SAIG enrollment process.

  - The Department notifies a foreign school of its cohort default rates via mail. Starting with the official FY 2008 cohort default rate cycle in September 2010, the Department will exclusively transmit the CDR notification electronically.
[*Cohort Default Rate Guide*; *Federal Student Aid Newsletter, FY 2008 Draft Cohort Default Rate,* dated February 2010]

- *Days*: For all cohort default rate rules, days mean calendar days.
[§668.182(c)]

- *Default:* A FFELP borrower is considered "in default" if the borrower defaults on a loan for which the claim is paid by the guarantor before the end of the fiscal year following the fiscal year in which the borrower entered repayment on the loan. For an FDLP borrower, default is defined under the parameters of that program. If a borrower defaults on a Federal Consolidation loan

within that time frame, the default is counted on the applicable underlying loans that entered repayment during the cohort year.
[§668.182(d); §668.183(c)]

Beginning with the fiscal year 2009 cohort default rate calculations, an FFELP borrower is considered "in default" if the borrower defaults on a loan for which the guarantor pays the claim before the end of the second fiscal year following the fiscal year in which the borrower enters repayment. For an FDLP borrower, default is defined under the parameters of that program. If a borrower defaults on a Federal Consolidation loan within that time frame, the default is counted on the applicable underlying loans that entered repayment during that cohort year.
[HEA §435(m); DCL GEN-08-12/FP-08-10]

- *Draft Cohort Default Rate*: The rate the Department issues for the school's review before the issuance of the official cohort default rate. The Department generally notifies schools of draft cohort default rates in February or March of each year.
[§668.182(e)]

- *Fiscal Year*: A federal fiscal year begins on October 1 and ends on September 30 of the following year. The fiscal year is identified by the calendar year in which it ends.
[§668.182(g)]

- *Loan Record Detail Report*: This report is issued by the Department and contains the detailed data used to calculate the school's draft or official cohort default rate.
[§668.182(h)]

- *Official Cohort Default Rate*: The official rate is calculated and published by the Department after the school has an opportunity to review and challenge its draft cohort default rate. The Department generally publishes the official rate prior to September 30 each year.
[§668.182(i)]

- *Participation Rate Index (PRI)*: The PRI is the percentage of a school's students who obtain FFELP or FDLP loans multiplied by the school's cohort default rate. (See Section 16.3.) The calculation is accomplished as follows:
[§668.195(b)(1)]

  *Step 1*—Select a 12-month period that ends no more than 6 months prior to the beginning of the fiscal year for which the cohort default rate is calculated.
[§668.195(b)(1)(i)]

  *Step 2*—Determine the number of regular students enrolled on at least a half-time basis during any part of the selected 12-month period.
[§668.195(b)(1)(ii)]

  *Step 3*—Of those students identified in *Step 2*, determine the number who received FFELP or FDLP loan funds to attend the school during a loan period that overlaps any part of the 12-month period selected in *Step 1*.

  *Step 4*—Divide the result of *Step 3* by the result of *Step 2* to determine the percentage of students who received loans.

  *Step 5*—Multiply the result of *Step 4* by the school's cohort default rate to obtain the PRI.
[§668.195(b)(1)]

- *Repayment start*: Loans generally are considered to have entered repayment on the dates described in Section 10.4. However, there are some exceptions within the cohort default rate process, as follows:
[§682.209(a)]

  – If a borrower obtained both an SLS loan and a Stafford loan for the same period of continuous enrollment, the SLS loan enters repayment at the same time the borrower enters repayment on his or her Stafford loan.
[§668.182(f)(2)(i)]

  – If the borrower does not have Stafford loans for the same period of continuous enrollment, the SLS loan enters repayment on the day after the student ceases to be enrolled at any school at least half time.
[§668.182(f)(2)(ii)]

  – A loan is considered to enter repayment if the loan is paid in full by the borrower before the loan would otherwise have entered repayment. In this case, the date on which the loan is paid in full becomes the new repayment begin date.
[§668.182(f)(3)]

## 16.2
## Calculation of School Cohort Default Rates

A cohort default rate is defined as the percentage of a school's student borrowers who enter repayment during a specific fiscal year on certain FFELP or FDLP loans and who default on those loans before the end of the same or following fiscal year.

Beginning with fiscal year 2009, a cohort default rate is defined as the percentage of a school's student borrowers who enter repayment during a specific fiscal year on certain FFELP or FDLP loans and who default on those loans before the end of the second fiscal year following the fiscal year in which the borrower entered repayment (see Section 16.1). This includes borrowers who borrow any of the following types of loans:

- A Federal Stafford loan, Federal SLS loan, or Direct Stafford loan.

- The portion of a Federal Consolidation loan or Federal Direct Consolidation loan used to repay a Federal Stafford loan, Federal SLS loan, or Direct Stafford loan.

A TEACH grant that has been converted to an unsubsidized Direct Stafford loan is not considered for the purpose of calculating a school's cohort default rate.
[§668.183(b)(3)]

A FFELP cohort default rate is calculated for each school participating in the FFELP or FDLP at the beginning of the fiscal year, whether or not the school actually had student borrowers entering repayment on Stafford or SLS loans during that fiscal year.

An official cohort default rate is calculated for a school according to the formulas that follow in Figure 16-1 until fiscal year 2009. Formula A is used for schools that had thirty or more student borrowers who entered repayment during the fiscal year for which the rate is being calculated. Formula B is used for schools that had fewer than thirty student borrowers who entered repayment during the fiscal year for which the rate is being calculated. A draft cohort default rate is calculated for a school based on one year of data (using Formula A), even if the official cohort default rate for the school will be calculated based on several years of data (using Formula B).
[*Cohort Default Rate Guide*]

Beginning with fiscal year 2009, an official cohort default rate will be calculated for a school according to the formulas that follow in Figure 16-2. Formula A will be used for schools that had thirty or more student borrowers who entered repayment during the fiscal year for which the rate is being calculated. Formula B will be used for schools that had fewer than thirty student borrowers who entered repayment during the fiscal year for which the rate is being calculated.
[HEA §435(m); DCL GEN-08-12/FP-08-10]

A dual-program cohort default rate is calculated when a school has student borrowers who entered repayment on both FFELP and FDLP loans in the same fiscal year. Although the same basic formulas are used to calculate FFELP, FDLP, and dual-program cohort default rates, slightly different definitions of default are used to determine which FFELP and FDLP student borrowers are included in the numerator of the formulas. For all schools, a FFELP loan is considered to be in default on the date the guarantor pays a default claim, and a FDLP loan is considered to be in default after 360 days of delinquency. For proprietary non-degree-granting schools only, the definition of default also includes student borrowers with FDLP loans that are in repayment for at least 360 days under the income-contingent repayment plan with scheduled payments that are less than $15 per month and less than the interest accruing on the loan. These conditions must have occurred before the end of the fiscal year following the year in which the loan entered repayment.
[§668.183(c)(i) and (ii)]

In some cases, the Department calculates an "unofficial cohort default rate" for a school. An "unofficial rate" is applicable if a school had fewer than thirty borrowers who entered repayment during the fiscal year for which the rate is being calculated, and no cohort default rate was calculated by the Department for the school for either or both of the two previous fiscal years. An "unofficial cohort default rate" cannot be used to determine sanctions or benefits for a school because it does not meet the definition of an official cohort default rate.
[*Cohort Default Rate Guide*]

## Cohort Default Rate Formulas — Figure 16-1

**FORMULA A: Schools with Thirty or More Student Borrowers Who Entered Repayment**

$$\frac{\text{Number of student borrowers who entered repayment during the specified fiscal year and defaulted before the end of that fiscal year or the subsequent fiscal year}}{\text{Number of student borrowers who entered repayment during the specified fiscal year}} \times 100$$

[§668.183(d)(1)]

**Example**
Student borrowers who entered repayment from October 1, 2005, through September 30, 2006 (inclusive), will be included in the denominator of the cohort default rate calculation for federal fiscal year 2006. If any of those student borrowers' loans defaulted by the end of the next fiscal year (September 30, 2007), those student borrowers will be included in the numerator. Student borrowers who entered repayment during fiscal year 2006, but who defaulted after September 30, 2007, will only be included in the denominator of the formula for the fiscal year 2006 default rate calculation.

**FORMULA B: Schools with Fewer Than Thirty Student Borrowers Who Entered Repayment**

$$\frac{\text{Number of student borrowers who entered repayment during the specified fiscal year and the previous two fiscal years and who defaulted before the end of the fiscal year immediately following the fiscal year in which the borrower entered repayment}}{\text{Number of student borrowers who entered repayment during the specified fiscal year and the previous two fiscal years}} \times 100$$

[§668.183(d)(2)]

**Example**
For calculating the federal fiscal year 2006 cohort default rate, the following periods are included:

| *Borrower Entered Repayment* | *Borrower Defaulted on or Before* |
|---|---|
| 10/01/03 – 9/30/04 | 9/30/05 |
| 10/01/04 – 9/30/05 | 9/30/06 |
| 10/01/05 – 9/30/06 | 9/30/07 |

Student borrowers who entered repayment during these periods are included in the denominator of the formula. Student borrowers who subsequently defaulted in the periods specified above are included in the numerator.

## Cohort Default Rate Formulas Beginning with Fiscal Year 2009 — Figure 16-2

**FORMULA A: Schools with Thirty or More Student Borrowers Who Entered Repayment**

$$\frac{\text{Number of student borrowers who entered repayment during the specified fiscal year and defaulted before the end of the second fiscal year following the fiscal year in which the borrower entered repayment}}{\text{Number of student borrowers who entered repayment during the specified fiscal year}} \times 100$$

**Example**
Student borrowers who entered repayment from October 1, 2008, through September 30, 2009 (inclusive), will be included in the denominator of the cohort default rate calculation for federal fiscal year 2009. If any of those student borrowers' loans defaulted between October 1, 2008, and September 30, 2011, those student borrowers will be included in the numerator. Student borrowers who entered repayment during fiscal year 2009, but who defaulted after September 30, 2011, will only be included in the denominator of the formula for the fiscal year 2009 cohort default rate calculation.

**FORMULA B: Schools with Fewer Than Thirty Student Borrowers Who Entered Repayment**

$$\frac{\text{Number of student borrowers who entered repayment during the specified fiscal year and the previous two fiscal years and who defaulted before the end of the second fiscal year following the fiscal year in which the borrower entered repayment}}{\text{Number of student borrowers who entered repayment during the specified fiscal year and the previous two fiscal years}} \times 100$$

**Example**
For calculating the federal fiscal year 2009 cohort default rate, the following periods are applicable:

| *Borrower Entered Repayment* | *Borrower Defaulted on or Before* |
|---|---|
| 10/01/06 – 9/30/07 | 9/30/09 |
| 10/01/07 – 9/30/08 | 9/30/10 |
| 10/01/08 – 9/30/09 | 9/30/11 |

Student borrowers who entered repayment during these periods are included in the denominator of the formula. Student borrowers who subsequently defaulted in the periods specified above are included in the numerator.

### Determining the Denominator

The denominator is the number of student borrowers who entered repayment during a fiscal year. This is determined by counting the number of different Social Security numbers present in all of the loan records for student borrowers who entered repayment on Federal Stafford or Federal SLS loans during that fiscal year. If a school had fewer than thirty borrowers who entered repayment in the fiscal year for which the rate is being calculated, the Department also identifies the borrowers in the cohorts for the two most recent prior fiscal years for inclusion in the current-year cohort calculation.
[§668.183(a)(1) and (b)]

There are several points to note about the calculation regarding student borrowers with multiple loans:

- A student borrower with two or more loans that entered repayment during the same fiscal year will be counted only once in a school's denominator.

- A student borrower with multiple loans that entered repayment in more than one fiscal year will be included in the cohort default rate calculation for each fiscal year in which the loans entered repayment.
  [§668.183(b)(2)]

- A student borrower with two or more loans that entered repayment during a single fiscal year will be counted in more than one cohort default rate calculation only if he or she borrowed those loans to attend more than one school, and those loans entered repayment during the same fiscal year. Such a borrower's loans (and his or her subsequent repayment or default on those loans) are attributed to the school at which the borrower received the loan that entered repayment.
  [§668.183(b)(2); *Cohort Default Rate Guide*]

For a student borrower whose loan was fully discharged due to death, disability, bankruptcy, closed school, false certification, unpaid refund, or teacher loan forgiveness provisions *prior* to the loan entering repayment, the borrower will be included in the denominator of the cohort default rate calculation based on the date on which the guarantor paid the applicable claim or discharged the loan. For a student borrower whose loan was fully discharged due to death, disability, bankruptcy, closed school, false certification, unpaid refund, or teacher loan forgiveness provisions *after* the loan entered repayment, the borrower will be included in the denominator of the cohort default rate calculation based on the fiscal year in which the loan entered repayment.
[*Cohort Default Rate Guide*]

If a student borrower paid a loan in full before the loan would otherwise have entered repayment, the borrower will be included in the denominator of the cohort default rate calculation based on the fiscal year in which the borrower paid the loan in full. If a student borrower requested and began repayment of a loan before the date on which the loan was scheduled to enter repayment, the borrower will be included in the denominator of the cohort default rate calculation based on the fiscal year in which the early repayment began.
[*Cohort Default Rate Guide*]

### Determining the Numerator

The numerator equals the number of student borrowers in the denominator who defaulted on any Federal Stafford, Federal SLS, or Federal Consolidation loan during the same fiscal year in which the loan or underlying loan entered repayment or during the following fiscal year. If a school had fewer than thirty borrowers who entered repayment during the fiscal year for which the cohort rate is being calculated, the Department identifies the school's student borrowers who entered repayment during the specified fiscal year and the two most recent prior fiscal years and who defaulted before the end of the fiscal year immediately following the fiscal year in which those borrowers entered repayment for inclusion in the numerator of the calculation for the specified year.
[§668.183(c)]

Beginning with fiscal year 2009, the numerator will equal the number of student borrowers in the denominator who defaulted on any Federal Stafford, Federal SLS, or Federal Consolidation loan before the end of the second fiscal year following the fiscal year in which the loan or underlying loan entered repayment. If a school had fewer than thirty borrowers who entered repayment during the fiscal year for which the cohort default rate is being calculated, the Department identifies the school's student borrowers who entered repayment during the specified fiscal year and the two most recent prior fiscal years and who defaulted before the end of the second fiscal year following the fiscal year in which the loan or underlying loan entered repayment for inclusion in the numerator of the calculation for the specified year.
[HEA §435(m); DCL GEN-08-12/FP-08-10]

There are several points to note about the calculation regarding student borrowers with multiple loans:

- A student borrower who entered repayment during the same fiscal year on two or more loans that were borrowed to attend the same school, and then defaulted

on those loans within the applicable time frame specified above, will be counted only once in the numerator.

- A student borrower who defaulted within the applicable time frame on two or more loans that were borrowed to attend the same school and that entered repayment in different fiscal years will be included in the numerators of the school's cohort default rate calculations for each of the fiscal years in which the loans entered repayment.

- A student borrower who defaulted within the applicable time frame on two or more loans that were borrowed to attend more than one school and that entered repayment during a single fiscal year will be included in the numerators of that year's cohort default rate calculations for each school at which the borrower obtained those loans and defaulted.

A loan made under the Lender of Last Resort (LLR) provisions that defaulted within the applicable time frame is included in the numerator of a school's cohort default rate calculation. In addition, any FFELP loan that has defaulted and been rehabilitated by the borrower by the end of the fiscal year following the year in which the loan entered repayment—or any FDLP loan that would be considered in default but on which a borrower has made 12 consecutive, monthly, voluntary, on-time payments—is not considered in default (Section 13.7).
[*Cohort Default Rate Guide*]

For a student borrower whose loan was fully discharged due to death, disability, bankruptcy, closed school, false certification, unpaid refund, or teacher loan forgiveness provisions after default, the borrower will be included in the numerator of the cohort default rate calculation that contains the same loan in the denominator, if the default occurred within the applicable time frame. For a student borrower whose loan was fully discharged due to death, disability, bankruptcy, closed school, false certification, unpaid refund, or teacher loan forgiveness provisions without a previous default, the borrower will *not* be included in the numerator of the cohort default rate calculation that contains the same loan in the denominator if the guarantor was notified of the condition in a timely manner. For a student borrower who paid a defaulted loan in full, the borrower will be included in the numerator of the cohort default rate calculation that contains the same loan in the denominator (provided the loan was not rehabilitated by the borrower by the end of the following fiscal year), if the default occurred within the applicable time frame.
[*Cohort Default Rate Guide*]

*A loan will be considered to be in default if a payment is made by the school or its owner, agent, contractor, employee, or any other entity or individual affiliated with the school in order to avoid default.*
[§668.183(c)(1)(iii)]

### Data Source

Cohort default rates are calculated based on data from the National Student Loan Data System (NSLDS). This data is transmitted to the NSLDS by guarantors, who received the data from lenders and servicers.
[*Cohort Default Rate Guide*]

### Types of Loans Included in Cohort Default Rates

Cohort default rates for fiscal years 1993 and beyond include Stafford and SLS loans, including underlying loans that are included in a Consolidation loan.
[§668.183(b)]

### Schools That Change Status

Detailed information regarding the calculation of cohort default rates for schools that change status—due to acquisitions or mergers, acquisitions of branches or locations, or branches or locations becoming separate schools, affecting federal school identification numbers—can be found in federal regulation, as well as the Department's *Cohort Default Rate Guide*.
[§668.184]

### Change of Ownership Resulting in a Change of Control

If a school undergoes a change of ownership, and the school's new owner establishes eligibility for the school, the consequences of the school's previous cohort default rates continue to apply to the school.
[§668.184(b) and (c); §668.188]

# 16.3 School Draft Cohort Default Rates and Challenges

The Department notifies each school of the scheduled transmittal date of its draft cohort default rate and then transmits the draft rates on that scheduled date annually in February or March, prior to the calculation of its official cohort default rate. The Department's notification to the school is electronic and is sent through the eCDR notification package process. This package includes the loan record detail report that supports the draft cohort default rate calculation. The draft rate is not considered public information and is provided only to the school, and may not be otherwise released by the data manager. A school may challenge its draft cohort default rate based on criteria specified in federal regulations and must use a format that is acceptable to the Department. The format for a cohort default rate challenge is detailed in the Department's *Cohort Default Rate Guide*. If the school's challenge does not comply with the requirements detailed in the Guide, the challenge may be denied. [§668.185; §668.204]

The following is a brief explanation of the basic steps of the draft cohort default rate process. A school that intends to challenge its cohort default rate should refer to the detailed instructions for these activities in federal regulations and in the Department's *Cohort Default Rate Guide.*

### Draft Cohort Default Rates

The Department provides draft cohort default rates to schools to afford them an opportunity to review the cohort data and to ensure the accuracy of the information on which the official rates will be based. The draft rate is always based only on the number of student borrowers entering repayment in the fiscal year for which the rate is being calculated, regardless of the number of student borrowers entering repayment in that year. Draft rates will always be calculated using Formula A found in Section 16.2. [§668.185(a)(2)]

### Challenging Draft Cohort Default Rates

A school may challenge its draft cohort default rate based on two general criteria: incorrect data and the school's participation rate index (PRI). Any challenge must be submitted within 45 days of the time frame begin date. For domestic schools, the time frame begin date is defined as the sixth business day after the Department officially releases the draft cohort default rates. For foreign schools, the time frame begin date is the day after the school's draft cohort default rate notification is received. A detailed explanation of the structure and content of a valid challenge is included in the Department's *Cohort Default Rate Guide*. Schools should carefully note the time frames and criteria prescribed.

*Incorrect Data Challenge*

For a challenge based on incorrect data, the school must provide the challenge to the guarantor (unless the disputed loans have been assigned to the Department) and must include specific information as defined in federal regulation. If the guarantor concurs that the draft rate is based on inaccurate information and the school's challenge is successful, the Department will use the corrected data to calculate the official cohort default rate. If the school does not challenge its draft cohort default rate under the incorrect data challenge, it will lose its right to later submit an appeal of its official rate due to uncorrected data. [§668.185(b); §668.204(b)]

*Participation Rate Index (PRI) Challenge*

A school can use the PRI challenge to put the overall federal fiscal impact of its cohort default rate into perspective based on the low percentage of its students receiving FFELP or FDLP loans. (See Section 16.1 for more information on the calculation of the PRI.) A school may submit a PRI challenge if its draft cohort default rate meets one of the following criteria:

- The two-year or three-year cohort default rate exceeds 40% and the school's PRI for that cohort's fiscal year is less than or equal to 0.06015.
- The two-year cohort default rate equals or exceeds 25% for the three most recent years for which rates have been calculated and the school's PRI for *any* of those fiscal years is less than or equal to 0.0375.
- The three-year cohort default rate equals or exceeds 30% for the three most recent years for which rates have been calculated and the school's PRI for any of those fiscal years is less than or equal to 0.0625.

[HEA §435(a)(2)(B) and §435(a)(8); §668.195; §668.214]

A school must send its PRI challenge directly to the Department within 45 days after the date on which the school receives its draft cohort default rate notification. If the draft cohort default rate was based on fewer than thirty borrowers entering repayment, the school may use either its draft cohort default rate or the cohort default rate calculated by using Formula B (see Section 16.2) in the PRI calculation. [§668.185(c); §668.204(c)]

The Department will notify the school of its determination regarding the PRI challenge prior to the publication of official cohort default rates. If the challenge is successful, the school will not lose eligibility to participate in the FDLP and Federal Pell Grant Program when its official cohort default rate is published, even if that rate exceeds the applicable regulatory threshold for participation in those programs. However, the successful challenge will not exempt the school from any other loss of eligibility. [§668.185(c)(4) and (5); §668.204(c)(4) and (5)]

If the Department determines that the school qualifies for continued FDLP or Federal Pell Grant Program eligibility based on its PRI challenge, it will notify the school of that determination prior to the publication of official cohort default rates. A successful challenge that is based on the draft cohort default rate does not preclude the school from any other loss of eligibility.
[§668.185(c)(4) and (5); §668.204(c)(4) and (5)]

A detailed explanation of the structure and content of a valid challenge is included in the Department's *Cohort Default Rate Guide*. Schools should carefully note the time frames and criteria prescribed.

## 16.4
## School Official Cohort Default Rates, Adjustments, and Appeals

Each year, approximately six months after the release of the draft cohort default rate and prior to September 30, the Department electronically notifies each school of its official cohort default rate through the eCDR notification package. A loan record detail report (LRDR) is included in the eCDR package if the school has one or more borrowers entering repayment or is subject to sanctions, or if the Department believes the school will have an official cohort default rate calculated as an average rate. Following notification, the Department publishes a list of official cohort default rates for all participating schools. The timeline for submitting a challenge, adjustment, or appeal begins on the sixth business day following the successful transmission date of the eCDR package as posted on the Department's Website, and lasts for 45 days. If a school reports a problem with the receipt of the eCDR package within 5 business days following the transmission and the Department agrees that the problem was not caused by the school, then the timeline for challenge, adjustment, or appeals is extended for that school to account for retransmission of the eCDR notification package once the technical problem is resolved. The school's 45-day timeline for submitting a challenge, adjustment, or appeal begins with the school's receipt of the eCDR package. If the school does not notify the Department of a transmission problem within the 5 business days following the transmission date of the eCDR package, the Department does not extend the timeline for submitting a challenge, adjustment, or appeal. [§668.186; §668.205]

### What Official Rates Mean for Schools

If the school's official cohort default rate is excessively high (most recent rate exceeds 40%), the school may lose eligibility to participate in the FFELP or FDLP. If the school's official cohort default rates are persistently high (three most recent rates equal or exceed 25%), the school may lose its eligibility to participate in the FFELP, the FDLP, and the Federal Pell Grant Program. [§668.187(a)(1)]

In addition, schools with an official cohort default rate of 25% or more in the three most recent fiscal years for which rates are available may be subject to provisional certification of the school's Title IV program participation. [§668.16(m); §668.187(a)(2)]

Low official cohort default rates may qualify the school for exemption from selected disbursement requirements (see Subsection 7.7.B). The consequences for high cohort default rates differ for two- year rates and three-year rates.

*Two-Year Rates*

If the school's official two-year cohort default rate is excessively high (most recent rate exceeds 40%), the school may lose eligibility to participate in the FDLP. If the school's official two-year cohort default rates are persistently high (three most recent rates equal or exceed 25%), the school may lose its eligibility to participate in the FDLP and the Federal Pell Grant Program. [§668.187(a)(1)]

In addition, a school with an official two-year cohort default rate of 25% or more in the three most recent fiscal years for which rates are available may be subject to provisional certification of the school's Title IV program participation.
[§668.16(m)(i); §668.187(a)(2)]

*Three-Year Rates*

For the first year that a school's three-year cohort default rate is 30% or more, the school must establish a default prevention task force to prepare and submit a plan to the Department that identifies factors contributing to the high default rate, establishes steps to improve the default rate, and specifies actions that can improve repayment rates. [HEA §435(a)(7)(A); §668.217(a)]

If the school's three-year cohort default rate is 30% or more for a second consecutive year, the default prevention task force must reevaluate and modify the plan to improve repayment rates.
[HEA §435(a)(7)(B); §668.217(b)]

Except for a successful appeal, for fiscal year 2011 or later, if the school's official three-year cohort default rate is excessively high (i.e., its most recent rate exceeds 40%), the school will lose its eligibility to participate in the FDLP. If the school's official three-year cohort default rates are persistently high (i.e., its three most recent rates each equal or exceed 30%), the school will lose its eligibility to participate in the FDLP and the Federal Pell Grant Program.
[§668.206(a)]

In addition, schools with an official three-year cohort default rate of 30% or more in two of the three most recent fiscal years for which rates are available may be subject to provisional certification of the school's Title IV program participation.
[§668.16(m)(2)]

#### Responding to Rates: Adjustment or Appeal?

A school's eligibility to appeal or request an adjustment to its official cohort default rate depends on the default rate and the type of adjustment or appeal the school is considering, as follows:

- Any school may request a new data adjustment to its official cohort default rate (see Subsection 16.4.A).
  [§668.191]

- Any school that successfully challenged the accuracy of the data in the loan record detail report supporting its draft cohort default rate may submit an uncorrected data adjustment request covering any approved changes that are not reflected in the school's official cohort default rate.
  [§668.190]

- Any school may submit an appeal based on improper loan servicing or collection.
  [§668.193]

- A school that is subject to loss of FFELP, FDLP, or Federal Pell Grant Program eligibility or provisional certification because of its cohort default rate may appeal the official cohort default rate based on erroneous data.
  [§668.192]

- For all types of appeals, a school may appeal its official cohort default rate only if the school would be subject to a loss of FFELP, FDLP, or Federal Pell Grant Program eligibility based on that rate.

## 16.4.A School Requests for Adjustment

Two options are available for a school to request an adjustment of its official cohort default rate:

- **Uncorrected Data Adjustment**
  The uncorrected data adjustment is used to identify and correct data that has been included in the published, official cohort default rate. The school may submit this type of adjustment request if it had, during the "draft" phase, submitted a timely challenge regarding data included in its draft cohort default rate and the guarantor agreed that the changes were necessary, but the revised data is not included in the official cohort default rate. The school must submit the uncorrected data adjustment request to the Department within 30 days after receiving the loan record detail report. If the Department determines that incorrect data was used to calculate the cohort default rate, it will recalculate the cohort default rate based on the correct data and electronically correct the rate that is publicly released. Additional instructions for this adjustment process are detailed in the *Cohort Default Rate Guide* and federal regulations.
  [§668.190; *Cohort Default Rate Guide*]

- **New Data Adjustment**
  A school may request a new data adjustment if the loan data reported to the National Student Loan Data System (NSLDS) is changed during the period between the calculation of the draft cohort default rate and the official rate, and if the school believes that the new, modified, or excluded data is inaccurate. However, the school may not submit the adjustment request to the Department if the guarantor does not concur that the data is inaccurate. The school must submit the new data adjustment request to the guarantor, with a copy to the Department (unless the disputed loans have been assigned to the Department), within 15 days after receiving the loan record detail report. If the Department determines that incorrect data was used to calculate the cohort default rate, it will recalculate the cohort default rate based on the correct data and electronically correct the rate that is publicly released. Additional steps for this adjustment process are detailed in the *Cohort Default Rate Guide* and federal regulations.
  [§668.191; *Cohort Default Rate Guide*]

# 16.4.B School Appeals

Appeal criteria, procedures, and time frames are explained in federal regulations and the *Cohort Default Rate Guide*. Depending on circumstances, a school may appeal for one or more of the following reasons:

- Erroneous data.
- Improper loan servicing or collection.
- Economically disadvantaged population.
- Participation rate index.
- Average rates.
- Thirty or fewer borrowers entering repayment in the three most recent cohort periods.

Appeals must be initiated and submitted within strict time frames and must include specific information in formats prescribed by federal regulation. Each appeal type is subject to different requirements.
[§668.189; Appendix A to Subpart M of Part 668; *Cohort Default Rate Guide*]

### Erroneous Data Appeals

Generally, a school that is initially subject to provisional certification or loss of FFELP, FDLP, or Federal Pell Grant Program eligibility due to high official cohort default rates may appeal a cohort default rate based on erroneous data for any of the years used to make that determination. A school subject to continued loss of eligibility may appeal only its most recent official cohort default rate. A school may submit an erroneous data appeal if either of the following criteria is applicable:

- The school submitted a timely challenge to data in its draft cohort default rate and it still considers that data to be inaccurate in the official cohort default rate calculation, regardless of whether the guarantor concurred with the school's assertion that the data was inaccurate.
- The data in the loan record detail report provided with the official cohort default rate notification varies from that provided with the draft rate, and the school believes new, modified, or excluded data is inaccurate, regardless of whether the guarantor concurs.

The school must submit a request for verification of data errors to the guarantor, with a copy to the Department (unless the disputed loans have been assigned to the Department), within 15 days after receiving its official cohort default rate notification. If the Department determines that incorrect data was used to calculate the cohort default rate, it will recalculate the cohort default rate based on the correct data and electronically correct the rate that is publicly released. Additional steps for this appeal process are detailed in the *Cohort Default Rate Guide* and federal regulations.
[§668.192(b) and (c); *Cohort Default Rate Guide*]

### Improper Loan Servicing or Collection Appeals

Any school may submit an improper loan servicing or collection appeal. A school subject to an initial loss of eligibility may appeal any of the applicable rates. A school subject to continued loss of eligibility may appeal only its most recent official cohort default rate. This appeal alleges that improper servicing or collection caused defaults on specific loans that were included in the calculation of the official cohort default rate.
[HEA §435(a)(3)(C); §668.193(a)]

A school may submit an improper loan servicing or collection appeal if both of the following criteria are met:

- The borrower never made a payment on the loan.
- The school proves that the lender failed to perform at least one of the following servicing or collection activities, if that activity was required:
  - Sending at least one letter, other than the final demand letter, urging the borrower or endorser to make payments on the loan.
  - Attempting at least one telephone call to the borrower or endorser.
  - Submitting a request for default aversion assistance to the guarantor.
  - Sending a final demand letter to the borrower.
  - Submitting a certification or other evidence that skip tracing was performed.

[§668.193(b)]

The timeline for submitting a challenge, adjustment, or appeal begins on the sixth business day following the transmission date of the eCDR package as posted on the Department's Website and lasts for 45 days. The loan record detail report (LRDR) is included in the eCDR package. The school has 5 business days from the transmission date of the eCDR package, as posted on the Department's Website to report any problem with receipt of the eCDR package. If the school reports a transmission problem within the 5-day period and the Department determines that the problem was not caused by the school, the timeline for submitting a challenge, adjustment, or appeal will be extended for that school to account for retransmission of the eCDR notification package once the technical problem is resolved. The school's 45-day timeline for submitting a challenge, adjustment, or appeal will begin with the school's receipt of the eCDR package. If the school does not notify the Department of a transmission problem within the 5 business days following the transmission date of the eCDR package, the Department will not extend the timeline for submitting a challenge, adjustment or appeal.

If the school intends to appeal its official cohort default rate based on improper loan servicing and collection and the loan record detail report was not included with the official cohort default rate notice, the school must request the loan record detail report within 15 days after receiving that notice. A school must request loan servicing records from the guarantor, with a copy of that request sent to the Department (unless the disputed loans have been assigned to the Department) within 15 days after receiving the loan record detail report. (Guarantors may charge for copies of loan servicing records.) Based on the Department's determination of the number of loans improperly serviced, it will use a statistically valid methodology to exclude the corresponding percentage of borrowers from both the numerator and denominator of the calculation of the school's cohort default rate, and electronically correct the rate that is publicly released. Additional steps for this appeal process are detailed in the *Cohort Default Rate Guide* and federal regulations.
[§668.186; §668.193(c) and (f); §668.205; *Cohort Default Rate Guide*]

#### Economically Disadvantaged Population Appeals

If a school is subject to loss of its FFELP, FDLP, or Federal Pell Grant Program eligibility due to high cohort default rates but can successfully demonstrate that it serves an economically disadvantaged student population, the school may submit this type of appeal if an independent auditor certifies that the school's low-income rate is two-thirds or more and that either of the following conditions exist:
[§668.194(a)]

- The school offers an associate, baccalaureate, graduate, or professional degree, and its program completion rate is 70% or more.
  [§668.194(a)(1)]

- The school does not offer an associate, baccalaureate, graduate, or professional degree, and its job placement rate is 44% or more.
  [§668.194(a)(2)]

The components and formulas for calculating the school's low-income rate, completion rate, and placement rate are carefully detailed in the *Cohort Default Rate Guide*. An economically disadvantaged population appeal must include, in addition to the school's assertions and documentation, an independent auditor's opinion that the school's assertions meet the requirements for an economically disadvantaged population appeal and are fairly stated in all material respects.
[§668.194(b) through (d)]

A school appealing on the basis of an economically disadvantaged student population must submit its management's written assertions as described in the *Cohort Default Rate Guide*, within 30 days after receiving the official cohort default rate notice. The auditor's opinion must be submitted to the Department within 60 days after receiving the notice. Detailed instructions for this appeal process can be found in the *Cohort Default Rate Guide* and federal regulations.
[§668.194(f); *Cohort Default Rate Guide*]

#### Participation Rate Index (PRI) Appeals

The PRI puts into perspective the impact of the school's cohort default rate on the federal fiscal interest. Thus, a low PRI indicates that the overall impact of a school's students' defaults is not significant in terms of federal dollars. (See Section 16.1 for information regarding the calculation of the PRI.) A school that is subject to a loss of FFELP, FDLP, or Federal Pell Grant Program eligibility may use the PRI appeal based on either of the following conditions:

- The school has one cohort default rate over 40% and the PRI for that cohort's fiscal year is less than or equal to 0.06015.
  [§668.195(a)(1); §668.204(c)(1)(i)]

- The school has three consecutive two-year cohort default rates of 25% or more and the PRI for any of the three cohorts' fiscal years is less than or equal to 0.0375.
  [HEA §435(A)(8); §668.195(a)(2)]

- The school has three consecutive three-year cohort default rates of 30% or more and the PRI for any of the three cohort's fiscal years is less than or equal to 0.0625.
  [§668.204(c)(1)(ii)]

A school appealing a loss of eligibility based on its PRI must submit that appeal to the Department within 30 days after receiving the notice of loss of eligibility. Detailed instructions for this appeal process can be found in the *Cohort Default Rate Guide* and federal regulations.
[§668.195(c); *Cohort Default Rate Guide*]

#### Average Rates Appeals

A school may submit an average rates appeal if it is subject to a loss of FFELP, FDLP, or Federal Pell Grant Program eligibility due to high cohort default rates and the school meets either of the following criteria:

- The school's official cohort default rate is greater than 40% and that cohort default rate was calculated as an average because there are fewer than thirty borrowers entering repayment in that cohort.
  [§668.196(a)(1)]
- The school's three most recent cohort default rates are 25% or more, at least two of those rates were calculated as average rates, and those two rates would be less than 25% if calculated for the applicable fiscal year alone.
  [§668.196(a)(2)]

The Department makes the initial determination that a school qualifies for an average rates appeal. Notice of that determination is included in the official cohort default rate notification. If the Department makes an initial determination that a school does not qualify for an average rates appeal and the school disagrees with that determination, the school must submit its appeal and all supporting documentation to the Department within 30 days after receiving the official cohort default rate notification. If the Department determines the school meets the requirements for the appeal, the school will not lose Title IV eligibility. Detailed instructions for this appeal process can be found in the *Cohort Default Rate Guide* and federal regulations.
[§668.196(b) and (c); *Cohort Default Rate Guide*]

## Summary: Challenges, Adjustments, and Appeals — Figure 16-3

| Rate Type: | The following may be submitted: | If school is subject to: | | When notified of provisional certification |
|---|---|---|---|---|
| | | *No Sanction* | *Loss of eligibility* | |
| **Draft** Cohort Default Rate: | Incorrect Data Challenges [§668.185(b)] | • | *Sanctions are never based on draft cohort default rates.* | |
| | Participation Rate Index Challenges [§668.185(c)] | • | | |
| **Official** Cohort Default Rate: | Uncorrected Data Adjustments [§668.190] | • | • | |
| | New Data Adjustments [§668.191] | • | • | |
| | Erroneous Data Appeals [§668.192] | | • | • |
| | Improper Loan Servicing or Collection Appeals [§668.193] | • | • | |
| | Economically Disadvantaged Population Appeals [§668.194] | | • | |
| | Participation Rate Index Appeals [§668.195] | | • | |
| | Average Rates Appeals [§668.196] | | • | |
| | Thirty-or-Fewer Borrowers Appeals [§668.197] | | • | |

#### Thirty-or-Fewer Borrowers Appeals

A school that is subject to a loss of FFELP, FDLP, or Federal Pell Grant Program eligibility due to high official cohort default rates may submit this type of appeal if a total of thirty or fewer borrowers are included in the three most recent cohorts of borrowers used to calculate the school's cohort default rates. The Department makes the initial determination that a school qualifies for this type of appeal, and includes a notification regarding that determination in the official cohort default rate notice. If the Department makes an initial determination that a school does not qualify for a thirty-or-fewer borrowers appeal and the school disagrees with that determination, the school must submit its appeal and all supporting documentation to the Department within 30 days after receiving the official cohort default rate notification. Detailed instructions for this appeal process can be found in the *Cohort Default Rate Guide* and federal regulations.
[§668.197; *Cohort Default Rate Guide*]

## 16.5 Consequences of High Official Cohort Default Rates for Schools

The Department may impose certain sanctions on schools with persistently high (three most recent official cohort default rates equal or exceed 25%) or excessively high (greater than 40% for the most recent year) official cohort default rates. These sanctions are not imposed on schools that successfully appeal or adjust their cohort default rates (see Section 16.4).

#### Termination of Eligibility

Unless a school appeals or requests an adjustment to its official cohort default rate, the school loses eligibility to participate in the FFELP and FDLP 30 days after receiving notice that its most recent official cohort default rate exceeds 40%. A school loses eligibility to participate in the FFELP, FDLP, and the Federal Pell Grant Program 30 days after the school receives notice that its three most recent official cohort default rates are 25% or greater, unless the school appeals or requests an adjustment by that date. The loss of eligibility is applicable for the remainder of the fiscal year in which the cohort default rate notice is received and the two subsequent fiscal years. A school will not lose its Federal Pell Grant Program eligibility under this section if the school was ineligible to participate or withdrew its participation in FFELP and FDLP in writing prior to October 7, 1998, and the eligibility was not reinstated, or the school has not certified a FFELP loan or originated a FDLP loan on or after July 7, 1998.

The school may avoid a loss of eligibility by submitting a timely, complete appeal or request for adjustment of its official cohort default rate that results in a recalculation of the rate to below the applicable threshold for loss of eligibility. However, if that request for adjustment or appeal is denied, the school may incur liabilities payable to the Department if it continued to certify and deliver funds later than 30 days after the school received its official cohort default rate notification. The liability period for the school's delivery of FFELP funds ends 45 days after the school submits a completed, timely appeal or request for adjustment to the Department.
[§668.187(a), (b), and (g)]

A school that loses its eligibility on the basis of its cohort default rate 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.

A student who is enrolled at the school and has received the first disbursement of a Direct loan before the school loses Direct loan eligibility may receive any remaining disbursements of that loan if he or she is otherwise eligible. However, a student who is enrolled at the school but to whom the first disbursement of a Direct loan has not been delivered (either directly or by credit to his account) by the date on which the school becomes ineligible may not receive that loan.
[§668.26(d)(3); §668.187; §668.206; §685.303(b)(2)(iii)]

#### Default Prevention Plans

Beginning with the official publication of three-year cohort default rates, a school whose three-year cohort default rate for a fiscal year is 30% or more must establish a default prevention task force to prepare a default prevention plan to:

- Identify the factors causing the school's rate to be 30% or more.
- Establish measurable objectives and steps to improve its default rate.
- Specify actions that can be taken to improve student loan repayment, including counseling regarding loan repayment options.

The school must submit the plan to the Department, and after reviewing the plan, the Department will offer technical assistance to the school to help improve the default rate.

If, for a second year, the school's default rate is 30% or more, the task force must review and amend the plan submitted earlier and send it to the Department for review. The Department may require the school to take additional actions that promote student loan repayment.
[HEA §435(a)(7); §668.217]

#### Exemptions from Consequences of High Official Cohort Default Rates

Certain schools may qualify for special relief from the consequences of high cohort default rates for one-year periods beginning on July 1 of the years 1999 through 2003. A school must be one of the following:

- A historically black college or university (as defined in the Act [HEA 322(2)]).
- A tribally controlled community college (as defined in the Tribally Controlled Community College Assistance Act of 1978).
- A Navajo community college (as defined under the Navajo Community College Act).

A school that otherwise qualifies must submit the necessary information and certifications to the Department by July 1 of the first one-year period that begins after the school's receipt of the notice of loss of eligibility. Additional steps in this exemption process are detailed in the *Cohort Default Rate Guide* and federal regulations.
[§668.198; HEA §435(a)(2)(C)]

#### Preventing the Evasion of the Consequences of High Official Cohort Default Rates

In order to prevent a school from evading the consequences of a high official cohort default rate by the merger with or acquisition of another school, a school's loss of FFELP eligibility that is based on a single cohort default rate greater than 40%, or equal to or greater than 25% for each of the three most recent official cohort default rates, is applied to another school that is eligible to participate in the FFELP if all of the following criteria are met:

- Both schools are parties to a transaction that results in a change in structure or identity.
  [§668.188(a)(1)]
- After the change in structure or identity, the FFELP *eligible* school offers an educational program at substantially the same address at which the FFELP *ineligible* school offered programs before the change.
  [§668.188(a)(2)]
- There is a commonality of ownership or management between the two schools.
  [§668.188(a)(3)]

If the Department determines, in response to an application filed under §600.20 or a notice filed under §600.21, that schools meet the above criteria, the Department notifies the eligible school that it is subject to the same loss of FFELP eligibility as the ineligible school. This loss applies to all of the school's locations from the date that the school receives the Department's notification until the expiration of the period of ineligibility applicable to the ineligible school. If a school is subject to such a loss of eligibility, the school may only submit a request for adjustment or appeal that would be applicable to the ineligible school.
[§668.188(d) and (e)]

## 16.6 Cohort Default Rates for Lenders and Holders

Each year, the Department calculates and publishes FFELP cohort default rates for each lender and holder based on data for each lender identification number. The rate is calculated from information supplied by guarantors.

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 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.
[Cohort Default Rate Guide for Guaranty Agencies and Lenders]

### 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.

- 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 responds to the lender or holder regarding the appeal (with a copy to the Department) and the lender or holder should send a letter to the Department indicating whether it agrees 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.
[HEA §430(c); DCL 96-L-191; Cohort Default Rate Guide for Guaranty Agencies and Lenders]

### Additional Information

Information on lender and holder FFELP cohort default rates may be obtained by contacting the Department's Financial Partners staff. Correspondence regarding lender or holder appeals of FFELP cohort default rate data must be addressed to:

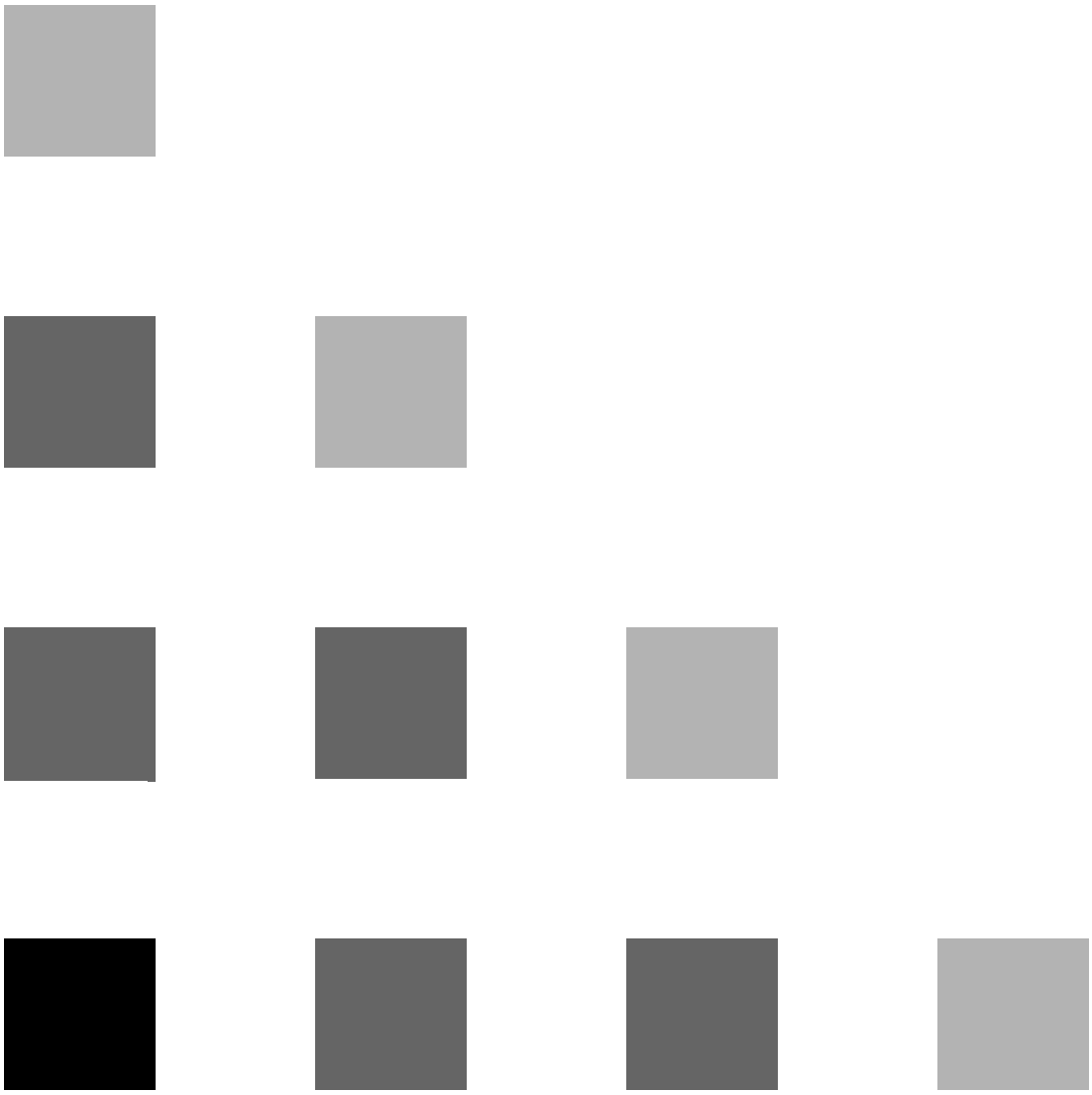
U.S. Department of Education
Default Coordination Team
Financial Partners
Room 4616, ROB-3
600 Independence Avenue, S.W.
Washington, DC 20202-5138

# Tab Locator Page

## Remove this page and replace with tab divider.

# Tab Locator Page

## Remove this page and replace with tab divider.



# 17 Program Reviews


| | | |
|---|---|---|
| 17.1 | Purpose and Scope of Program Reviews | 1 |
| 17.2 | Selecting Entities for Program Review | 2 |
| 17.2.A | Selection Criteria for Schools | 2 |
| 17.2.B | Selection Criteria for Lenders and Servicers | 2 |
| 17.3 | The Program Review Process | 3 |
| 17.3.A | The Preliminary Review | 3 |
| 17.3.B | The On-Site Review | 4 |
| 17.3.C | Program Review Report | 5 |
| 17.3.D | Program Review Close-Out Procedures | 6 |

This page intentionally left blank.

Guarantors are required by federal regulations to conduct comprehensive biennial program reviews of certain schools and lenders participating in the FFELP. These reviews may include third-party servicers of schools and lenders, as appropriate. Guarantors may also perform non-mandated reviews of schools, lenders, and their third-party servicers to ensure efficient, effective administration of the FFELP.

Program reviews are conducted to assess the administrative and financial capability of schools, lenders, and servicers with respect to participation in the FFELP. Chapter 17 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.
[HEA §487(c)]

All references to lenders in this chapter include the originating lender and any subsequent holder, as defined in Section 3.1.

#### Common Review Initiative (CRI)

The Common Review Initiative (CRI) is a process designed to create efficiencies and consistency in lender program reviews by guarantors. Through this joint effort, guarantors collaborate to conduct lender reviews by sharing staff and review costs while using common review procedures. CRI focuses on conducting comprehensive reviews at the servicer level (where possible) using "best practices," and serving FFELP participants by eliminating redundant guarantor reviews.

The CRI Oversight and Administration Council governs CRI and is composed of participating guarantors that have signed an agreement to participate in the CRI effort.

On December 21, 2007, the Department issued a letter approving the CRI process and confirming that reviews conducted under the CRI process satisfy a guarantor's obligation to conduct reviews of lenders and servicers under §682.410(c), effective January 1, 2008.

For more information on the CRI, go to the NCHELP Website at www.nchelp.org and click on the Initiatives link.

## 17.1
## 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 17.2.A and 17.2.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.
[§682.410(c)(2)]

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.

## 17.2
## 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.

## 17.2.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 16). [§682.410(c)(1)(i)(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.

## 17.2.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. [§682.410(c)(1)(i)(A)(1)]
- The lender was one of the guarantor's top ten lenders as measured by its volume for the preceding year. [§682.410(c)(1)(i)(A)(2)]
- The lender's volume during the most recent fiscal year equaled or exceeded $10 million. [§682.410(c)(1)(i)(A)(3)]

A guarantor also is required to review each holder of loans that functions in a designated state as a private, nonprofit secondary market.
[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 Lender's Interest and Special Allowance Request and Report (LaRS report).
  - 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.

## 17.3 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.

## 17.3.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 (PPA)
- Accreditation reports/certification
- State, federal, or tribal licensing and/or authorization documentation, as applicable
- Default management plan, if applicable
- National Student Loan Data System (NSLDS) rosters, reporting, and procedures
- Individual borrower files

*For Lenders*
- FFELP lending policies
- Documentation from prior program reviews
- Independent audit results
- Audited financial statements
- Lender's Interest and Special Allowance Request and Report (LaRS reports)
- Documentation of loan transfers
- NSLDS Lender Manifest, error reports, unreported loan reports, and procedures
- 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
- NSLDS Lender Manifest, error reports, unreported loan reports, and procedures
- 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.

## 17.3.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 loan processing, disbursement, repayment servicing, due diligence, collections, claim filing, and Lender's Interest and Special Allowance Request and Report (LaRS report) 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 (COA) calculation
- Satisfactory academic progress (SAP) 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
- Enrollment Reporting
- National Student Loan Data System (NSLDS) rosters, reporting, and procedures
- Overall administrative capability
- Separation of duties
- Adequacy of staffing
- Financial responsibility
- Prior program review findings
- Attendance records
- Loan information and supporting documentation
- Procedures for confirming a student borrower's desire to receive a loan under the multi-year feature of the MPN.
- Federal PLUS Loan Application and Master Promissory Note (PLUS MPN) procedures for obtaining the requested loan amount from the parent borrower.

*For Lenders*

- Loan amounts
- Interest rates
- Disbursement procedures
- Disclosures of rights and responsibilities
- PLUS loan credit checks
- Out-of-school dates
- NSLDS Lender Manifest, error reports, unreported loan reports, and procedures
- Conversion of loans to repayment
- Application of prepayments and refunds
- Deferments and forbearances
- Interest accrual and capitalization
- Due diligence
- Skip tracing
- Claim filing
- LaRS reports
- Reconciliation of loan sales/acquisitions
- Prior program review findings
- Loan information and supporting documentation
- Procedures for confirming a student borrower's desire to receive a loan under the multi-year feature of the MPN.
- Federal PLUS Loan Application and Master Promissory Note (PLUS MPN) procedures for obtaining the requested loan amount from the parent borrower.

*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.

## 17.3.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

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. 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 (see Sections 3.8 and 4.8 for additional information).

*For Schools*

- Improper administration of admission requirements (such as ability-to-benefit and high school diploma and General Education Development (GED) Certificate requirements)
- Improper loan certification
- Eligibility documentation for noncitizens missing
- Student Aid Reports (SAR) or Institutional Student Information Reports (ISIR) missing or not available at the time a FFELP loan was certified
- Improper verification (such as missing or unsigned documents)
- Student budget exceptions (such as cost of attendance [COA], expected family contribution [EFC], and estimated financial assistance [EFA] discrepancies)
- Improper satisfactory academic progress (SAP) standards or enforcement
- Enrollment status discrepancies
- Improper National Student Loan Data System (NSLDS) reporting and procedures
- Entrance or exit counseling not conducted or documentation missing
- Improper performance of return of Title IV funds procedures, including incorrect calculations, late returns to lenders, and funds returned to the wrong Title IV program
- Incorrect application of return of Title IV funds requirements

*For Lenders*

- Improper interest rates
- Improper endorsement on disbursement checks
- Original or copy of promissory note missing from file
- Guarantee disclosure missing from file
- Incorrect out-of-school date
- Improper NSLDS reporting and procedures
- 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
- Borrower not notified of loan sale when there is a change in the party to which the borrower must send future payments and communications
- Errors on the Lender's Interest and Special Allowance Request and Report (LaRS report) in origination fee calculations, interest, or special allowance reporting

*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
- Improper NSLDS reporting and procedures

## 17.3.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 18.
[HEA §487(c)(F)]

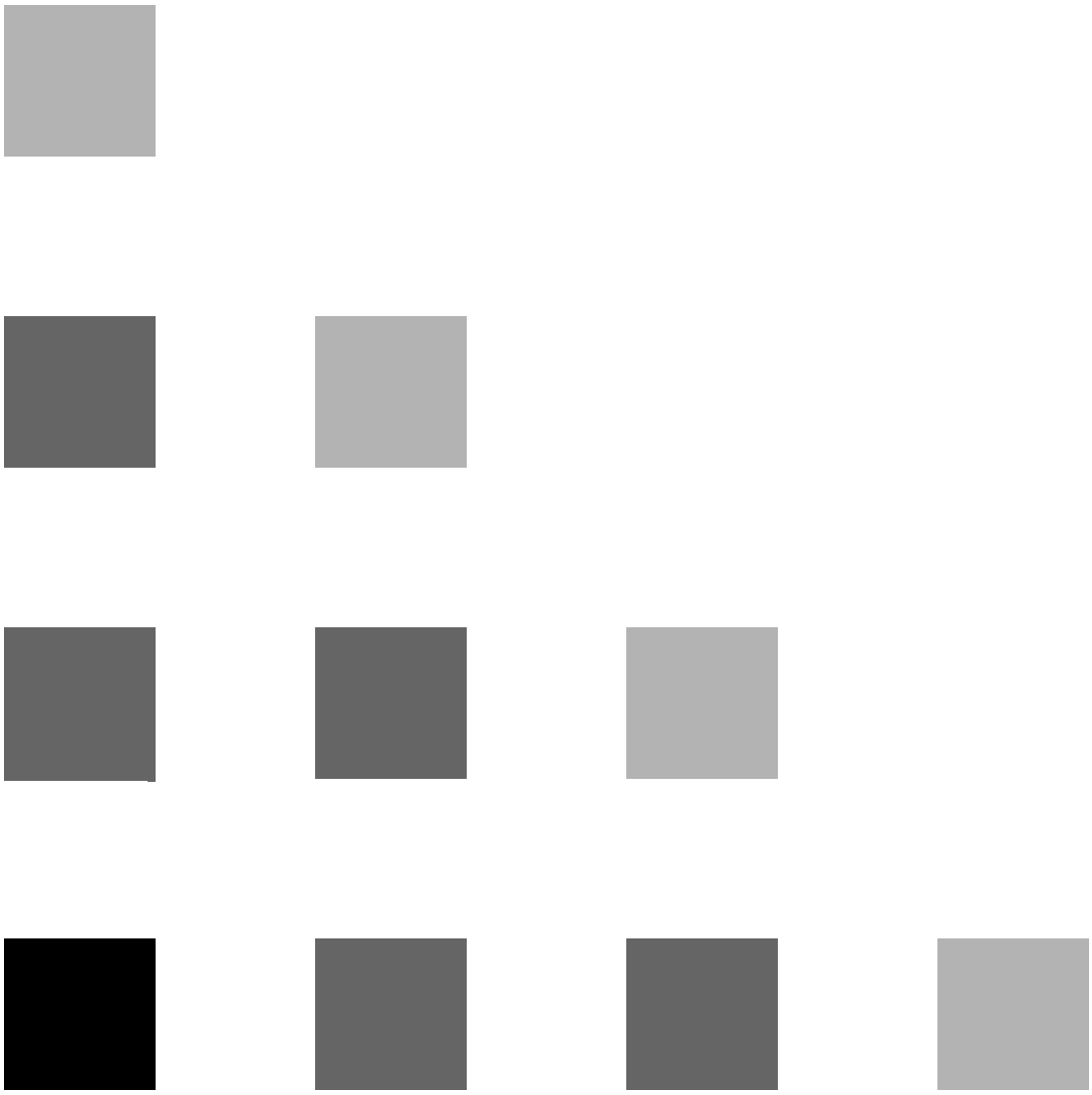
If potential fraud or abuse with respect to FFELP participation is identified during a review, the reviewer is obligated to notify and forward all supporting documentation to the Department's Office of Inspector General.
[HEA §487(c)(G)]

# Tab Locator Page

## Remove this page and replace with tab divider.

# Tab Locator Page

## Remove this page and replace with tab divider.



# 18 Limitation, Suspension, and Termination


| | | |
|---|---|---|
| 18.1 | Actions to Limit, Suspend, or Terminate Participation | 1 |
| 18.1.A | Limitation | 2 |
| 18.1.B | Suspension | 2 |
| 18.1.C | Termination | 3 |
| 18.1.D | Emergency Action | 3 |
| 18.2 | Proceedings | 4 |
| 18.2.A | Appealing an LS&T Action | 4 |
| 18.2.B | Prehearing Conferences and Informal Compliance Procedures | 4 |
| 18.2.C | Hearing | 5 |
| 18.2.D | Action by the U.S. Department of Education | 6 |
| 18.2.E | Appealing a Final Determination | 6 |
| 18.2.F | Offsets, Reimbursements, and Refunds | 6 |
| 18.3 | Removal of Limitation | 6 |
| 18.4 | Reinstatement after Termination | 7 |

This page intentionally left blank.

Chapter 18 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.

## 18.1 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.
  [HEA §487(c)(1)(F)]

In any LS&T action concerning a lender, if the Department, its designee, or a Hearing Officer finds that a lender provided or offered any of the payments or activities that violate the inducement provisions (see Subsection 3.4.C under *Prohibited Activities*), the Department or Hearing Officer will apply a rebuttable presumption that the payments or activities were offered or provided to secure FFELP loan applications or FFELP loan volume. To reverse the presumption, the lender must present evidence that the activities or payments were provided for a reason unrelated to securing FFELP loan applications or FFELP loan volume.

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.

When the Department initiates an LS&T or emergency action, the school must prepare a teach-out plan and provide it to the school's accrediting agency or association. A "teach-out plan" is a written plan that provides for equitable treatment of students if a school ceases to operate before all students have completed their program of study; the plan may include, if required by the school's accrediting agency, an agreement between schools for a teach-out plan. The teach-out plan must be prepared in accordance with HEA §496(c)(3) (see Title I—General Provisions, Accreditation, and Operating Procedures) and any applicable Title IV regulations or accrediting agency standards.
[HEA §487(f); DCL GEN-08-12/FP-08-10]

### 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. [§682.706(b)(3)]

- 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 18.1.D). The Show-Cause Official must not be the initiating Official of the emergency action. [§668.2]

## 18.1.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. [§668.93(a)]

- A requirement that the school obtain a bond of a specified amount to ensure its ability to meet its financial obligations. [§668.93(g)]

- 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. [§668.93(b)]

- Other reasonable limits on the school's participation in a guarantor's programs. [§668.93(i)]

#### 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. [§682.702(b)(1)]

- A limit on the number or total dollar amount of FFELP loans that the lender may make for students enrolled at a particular school. [§682.702(b)(2)]

- Other reasonable limits on the lender's participation in the guarantor's programs. [§682.702(b)(3)]

## 18.1.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.
  [§668.85(a)(3)(i); §682.705(a)(1)(i)]

- 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(a)(3)(ii); §682.705(a)(1)(ii)]

## 18.1.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.
[§668.94; §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(b); §682.706(a)]

## 18.1.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.
  [HEA §487(c)(G)(i); §668.83(c)(1)(i); §682.704(a)(1)]

- 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.
  [HEA §487(c)(G)(ii); §668.83(c)(1)(ii); §682.704(a)(2)]

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.
[HEA §487(c)(G)(iii); §668.83(c)(1)(iii); §682.704(a)(3)]

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(d)(2)]

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. [HEA §487(c)(G); §668.83(g); §682.704(d)(2)(ii)]

## 18.2 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. [§668.85(b)(1); §668.86(b)(1); §682.410(c)(9)(i); §682.705(b)(1); §682.706(a)]

## 18.2.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. [§668.86(b); §682.705(c)(1); §682.706(b)(1)]

- *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. [§668.85(b)(3); §668.86(b)(3); §682.705(c)(2); §682.706(b)(2)]

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. [§668.86(b)(1)(iii)]

## 18.2.B Prehearing Conferences and Informal Compliance Procedures

An affected entity may request an opportunity to attempt to settle or narrow an LS&T action prior to the hearing described in Subsection 18.2.C. In an LS&T action, a prehearing conference is available to either a school or a third-party servicer, and an informal compliance procedure is available to either a lender or a servicer under contract with a lender.

### Prehearing Conference

A Hearing Officer may convene a prehearing conference if it appears that such a conference would be useful or if the conference is requested, within the time frames established in §668.86(b)(1)(ii), by one of the following parties:

- The designated Department or guarantor Official who brought the proceeding against the school or the third-party servicer.
  [§668.87(a)(1)]

- The school.
  [§668.87(a)(2)]

- The third-party servicer.
  [§668.87(a)(2)]

The purpose of a prehearing conference is to attempt to settle or narrow the dispute. Upon agreement between all applicable parties, a prehearing conference may consist of a telephone conference call, an informal meeting, or the submission and exchange of written material between the Hearing Officer, the Official (as defined in Section 18.1), and the school or, if applicable, the third-party servicer. [§668.87(c)]

In a prehearing conference, the Hearing Officer and representatives of the parties 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 Hearing Officer, the Official, and the school or, if applicable, the third-party servicer, agree. As a result of the prehearing conference, the Hearing Officer, the Official, and the school or, if applicable, the third-party servicer, may enter into a prehearing agreement, signed by all applicable parties, stipulating certain facts, procedures, or points of law. With the approval of the Hearing Officer and the consent of all applicable parties, any schedule specified in this chapter may be shortened. [§668.87; §682.401(b)(6)(i)]

### Informal Compliance Procedure

An informal compliance procedure may be scheduled if reliable information or a complaint is received indicating that a lender or servicer may be in violation of FFELP laws, regulations, special arrangements, agreements, or limitations entered into under the authority of statutes applicable to Title IV of the HEA. This affords the lender or servicer a reasonable opportunity to respond to the complaint or information and show that the complaint or alleged violation is without merit, to show that the violation has been corrected, or to submit an acceptable plan for correcting the violation and preventing its recurrence.

If the informal compliance procedure includes an LS&T action, the LS&T action is not delayed if the delay would harm the FFELP or if the informal compliance procedure would not result in correction of the alleged violation. [§682.401(b)(7)(i); §682.703]

## 18.2.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)]

## 18.2.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.
[§682.712; §682.713]

## 18.2.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(d)]

## 18.2.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]

## 18.3
## 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]

## 18.4 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.
[§668.96; §682.711]

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.
[§668.97; §682.711]

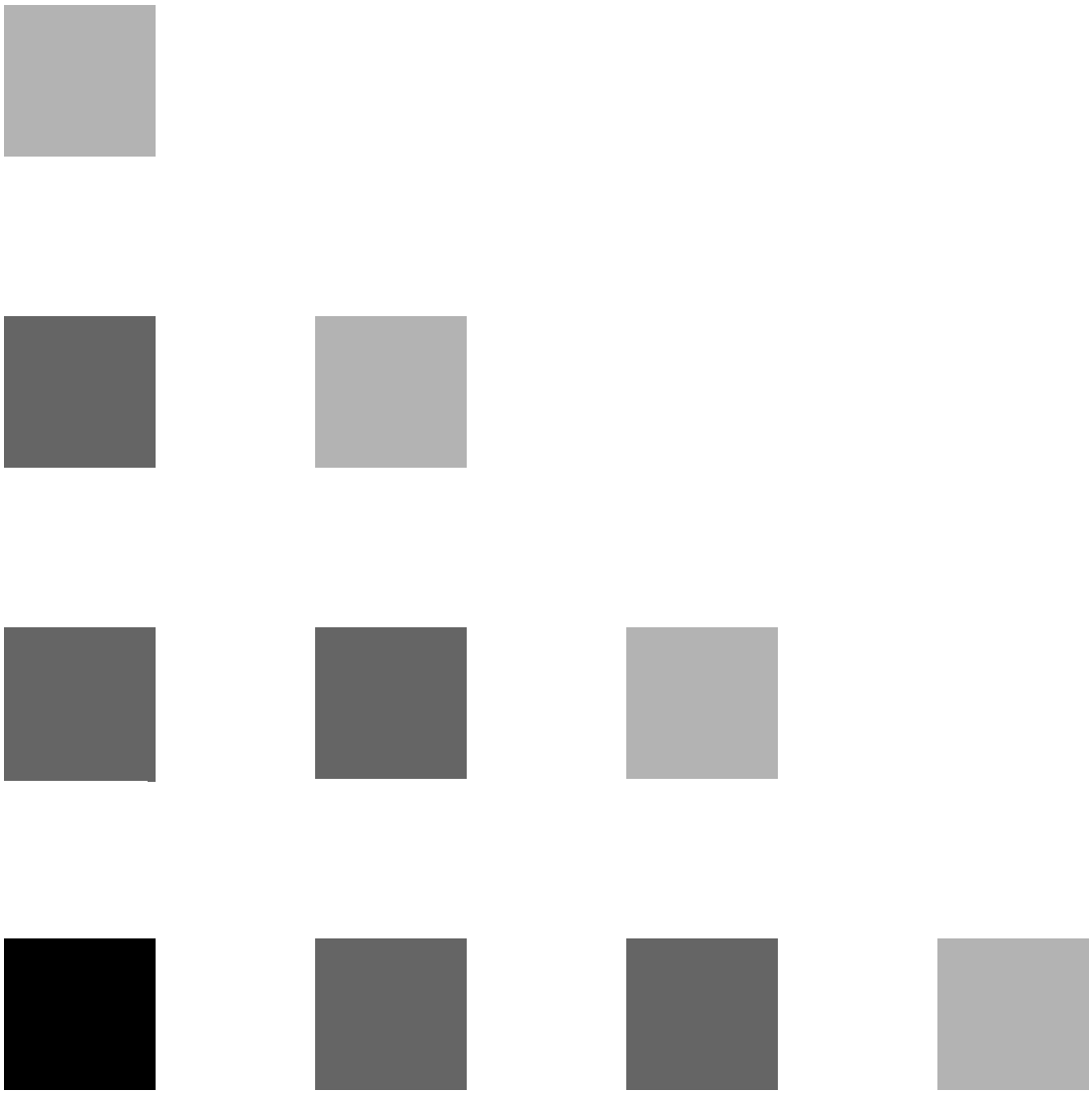
This page intentionally left blank.

# Tab Locator Page

## Remove this page and replace with tab divider.

# Tab Locator Page

## Remove this page and replace with tab divider.



# A Interest Benefits and Special Allowance


| | | |
|---|---|---|
| A.1 | Federal Interest Benefits | 1 |
| A.1.A | Amount of Federal Interest Benefits | 1 |
| A.1.B | When Federal Interest Benefits Will Be Paid | 2 |
| A.2 | Special Allowance and Excess Interest | 4 |
| A.2.A | Special Allowance and Excess Interest Rates | 4 |
| A.2.B | Termination of Special Allowance | 13 |
| A.3 | Interest and Special Allowance Billing | 14 |
| A.3.A | General Instructions for Completing the LaRS Report | 14 |
| A.3.B | Summary of the LaRS Report | 16 |
| A.3.C | LaRS Data and Codes | 16 |
| A.3.D | Deactivation | 17 |
| A.4 | Consistency between LaRS and NSLDS Data | 18 |

This page intentionally left blank.

The Department 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 loan period, 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 (LaRS report) to the Department. The lender can submit the LaRS report through the automated Lender Reporting System or via the paper LaRS report. In completing this report, the lender provides the current status and outstanding balance of each FFELP loan in its portfolio and pays fees due on newly originated FFELP loans. A LaRS report must be filed quarterly, within 90 days of the quarter end. See Section A.3 for more information on the LaRS report.

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 or the qualifying portion of a 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.
  [§682.300(b)(1)]

- Consolidation loans made from applications received between January 1, 1993, and August 9, 1993, inclusive, excluding any portions derived from underlying HEAL loans.
  [§682.301(a)(3)(i)]

- Consolidation loans made from applications received between August 10, 1993, and November 12, 1997, inclusive, where all loans consolidated were subsidized Stafford loans.
  [§682.301(a)(3)(ii)]

- Consolidation loans made from applications received on or after November 13, 1997, for any portion of the Consolidation loan that paid a subsidized FFELP loan or a subsidized Direct loan.
  [§682.301(a)(3)(iii)]

- Federally Insured Student Loans (FISL loans).
  [HEA §428(a); 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 6.14.A.

## A.1.A
## Amount of Federal Interest Benefits

The Department will pay interest benefits on a loan at a rate equal to the actual 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.
[§682.300(d)(1)]

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 Figure 7-1. Information on interest rates for Consolidation loans is provided in Subsection 15.3.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)(2)]

# A.1.B
# When Federal Interest Benefits Will Be Paid

Interest benefits are paid on subsidized Stafford loans, qualifying Consolidation loans, and any qualifying portions of Consolidation loans when the loans are in an in-school, grace, deferment, or post-deferment grace status. [§682.300(b)(1)]

The borrower is responsible for paying the interest that accrues during all other periods.

### Beginning Date

For a subsidized Stafford loan, the earliest date on which the Department will begin paying interest benefits is based on when the loan is disbursed and how the lender disburses the loan funds. If the loan is disbursed through an escrow agent before the first day of the loan period, the lender may begin accrual of interest benefits no earlier than three days before the date of the first disbursement. For these purposes, disbursement means disbursement to the school or direct disbursement to the borrower.
[HEA §428(l)(1); DCL GEN-06-02]

For loans that are disbursed directly to the school or to the borrower, the lender may begin accrual of interest benefits as follows:

- If a loan is disbursed *on or before* the first day of the loan period and the funds are disbursed—
  - By individual borrower check, the lender may begin accrual of interest benefits on the later of 10 days before the first day of the period of enrollment or the date of disbursement. [§682.300(c)(3)(i)]
  - By master check or EFT, the lender may begin accrual of interest benefits on the later of 3 days before the first day of the loan period or the date of disbursement. [§682.300(c)(3)(ii)]
- If a loan is disbursed *after* the first day of the loan period, regardless of the disbursement method, the lender may begin accrual of interest benefits 3 days after the date of disbursement. [§682.300(c)(3)(i) and (ii)]

For second and subsequent disbursements, accrual of interest benefits begins on the date that the second or subsequent disbursement is made.

For a subsidized Stafford loan subject to delayed delivery requirements (a first-year, first-time undergraduate Stafford loan borrower attending a school subject to delayed delivery provisions), the lender may begin accrual of interest benefits on the loan as follows:

- 3 days after the date of the first disbursement if the funds are disbursed by either master check or EFT, regardless of when the funds are disbursed. [§682.300(c)(3)(ii)]
- On the date the first disbursement is made for funds disbursed by individual check on the first date of the loan period. [§682.300(c)(3)(i)]
- 3 days after the date of the first disbursement if the funds are disbursed by individual check after the first day of the loan period. [§682.300(c)(3)(i)]

More information on delayed disbursement is included in Section 6.4 and Subsections 7.7.A, and 8.7.D.

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 date the borrower's deferment eligibility began, except in the case of an initial period of unemployment deferment for which the borrower self-certified his or her eligibility. The Department's obligation to pay interest benefits on behalf of a borrower who qualifies for an initial period of unemployment deferment based on the borrower's self-certification of eligibility begins on the later of: [§682.300(b)(1)(i) and (ii)]

- The first day the borrower qualifies for the deferment (as determined by the lender).
- The begin date requested by the borrower.
- Six months before the date the lender receives the required borrower request and documentation of eligibility for the deferment. [§682.210(a)(5); §682.210(h)(1) and (2); §682.300(b)(1)(ii)]

For a subsidized Consolidation loan or any portion of a Consolidation loan that is subsidized, the lender may begin billing the Department for interest benefits on the first date the borrower qualifies for a deferment, except for an initial unemployment deferment based on the borrower's self-certification of eligibility. In this deferment situation, the lender may begin billing the Department for interest benefits on the later of:
[§682.300(b)(1)(ii)]

- The first date the borrower qualifies for the deferment (as determined by the lender).
- The begin date requested by the borrower.
- Six months before the date the lender receives the required borrower request and documentation of eligibility for the deferment.
  [§682.210(a)(3); §682.210(h)(1) and (2); §682.301(a)(3)]

For a subsidized Stafford loan or any portion of a Consolidation loan that is subsidized, the lender may bill the Department for interest benefits during a consecutive 3-year period if the borrower's scheduled monthly partial financial hardship payment amount under the income-based repayment (IBR) plan is not sufficient to pay the accruing interest. This consecutive 3-year period begins on the established repayment period start date when each loan enters IBR and excludes any period during which the borrower receives an economic hardship deferment.
[§682.300(b)(1)(iv)]

### Ending Date

The Department's obligation to pay federal interest benefits ends on the earliest of the following dates, as applicable:

- The date the loan is fully repaid.
  [§682.300(b)(2)(i)]
- The date the borrower defaults.
  [§682.300(b)(2)(iii)]
- The date the lender receives notice of the guarantor's determination that the loan is eligible for discharge under closed school, false certification, spouses and parents of victims of September 11, 2001, or unpaid refund provisions. If only a portion of the loan is discharged, the remaining portion of the loan remains eligible for interest benefits.
  [§682.300(b)(2)(viii)]
- The date the lender receives claim payment on the loan.
  [§682.300(b)(2)(iv)]
- The date the loan is discharged by a bankruptcy court.
  [§682.300(b)(2)(v)]
- The date the lender determines that the borrower has died or become totally and permanently disabled.
  [§682.300(b)(2)(vi)]
- The date of disbursement for any portion of the loan for which a borrower is found to be ineligible (see Section 5.17).
  [§682.300(b)(3)]
- 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.
  [§682.300(b)(2)(vii)]
- The date the lender determines the loan is legally unenforceable based on the receipt of a valid identity theft report. If, within 3 years of this date, a lender receives evidence that the loan was made as the result of the crime of identity theft, the lender may submit a claim and receive federal interest benefits and special allowance payments that would have accrued on the loan. See Subsection 13.8.E for more information on loan discharge as a result of the crime of identity theft.
  [§682.208(b)(4); §682.300(b)(2)(ix)]
- The earlier of the date that the borrower's monthly payment amount under the IBR plan is sufficient to pay the accrued interest on the borrower's loan or on the qualifying portion of the borrower's Consolidation loan or the end of the consecutive 3-year period.
- 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 and Excess Interest

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.
  [§682.302(b)(3)]

- Nonsubsidized Stafford loans first disbursed on or after October 1, 1981, for periods of enrollment beginning before October 1, 1992.
  [§682.302(b)(1)]

- Any portion of a Consolidation loan derived from an underlying HEAL loan.
  [HEA §428C(d)(3)(A)]

For a loan first disbursed on or after April 1, 2006, the Department will collect excess interest for quarters in which the applicable interest rate on the loan exceeds the special allowance support level (see Subsection A.2.A).

The formulas used to calculate special allowance and excess interest, which are exhibited on the following pages, 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.

Variable-rate PLUS or SLS loans first disbursed before July 1, 1994, and PLUS loans first disbursed on or after July 1, 1998, or on or after January 1, 2000, for any period prior to April 1, 2006, are 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 interest rate for each July 1 to June 30 period, as calculated prior to applying the interest rate maximum (or cap), exceeds the maximum interest rate for the loan.
  [§682.302(b)(2)]

If the lender charges the reduced interest rate based on SCRA provisions, and the loan was first disbursed on or after July 1, 2008, then the lender may determine the applicable special allowance payment based on the loan's actual 6% interest rate. However, if the loan was disbursed prior to July 1, 2008, then the lender must continue to determine the special allowance payment based on the applicable (maximum) interest rate permitted in statute. See Subsection 10.9.B for more details regarding the parameters for granting the reduced interest rate.
[HEA 438(g)]

## A.2.A Special Allowance and Excess Interest Rates

#### Special Allowance Rates

Generally, the amount of special allowance that is payable on an eligible loan is determined by multiplying the average daily balance of principal and capitalized interest on the loan by the applicable special allowance rate. However, the lender also receives a special allowance payment based on the average daily balance of the unpaid accrued interest for a loan on which the borrower has a partial financial hardship (PFH) as determined under the income-based repayment (IBR) plan.
[§682.302(a)]

Special allowance rates are calculated and published quarterly by the Department. The formulas used to calculate these rates are exhibited on the following pages. The following factors are considered in the calculation of special allowance rates for a loan:

- The average of the bond equivalent rates of the quotes of the 3-month commercial paper (financial) rates in effect for each of the days in the quarter (also called the 3-month commercial paper rate) for Stafford and PLUS loans first disbursed on or after January 1, 2000, and for Consolidation loans made from applications received by lenders on or after January 1, 2000.

- The average bond equivalent rate of the 91-day Treasury bills auctioned during the quarter (also called the T-bill rate) for Stafford and PLUS loans first

disbursed prior to January 1, 2000, and for Consolidation loans made from applications received by lenders before January 1, 2000.

- A factor prescribed by law for each category of loans. This factor is added to the applicable T-bill rate or 3-month commercial paper rate for the quarter.

- The applicable statutory interest rate for the loan. However, the applicable interest rate for the unpaid accrued interest on a loan subject to IBR is zero. This rate is subtracted from the sum of the appropriate factor and the applicable T-bill rate or 3-month commercial paper rate.

The special allowance factor for a loan first disbursed on or after October 1, 2007, is based on whether the lender qualifies as an eligible not-for-profit holder. As it relates to special allowance payments on loans first disbursed on or after October 1, 2007, a lender is considered to be an eligible not-for-profit holder if the lender is an eligible lender that requests special allowance payments from the Department and meets any one of the following conditions:

- The lender is a state, or a political subdivision, authority, agency, or other instrumentality of such, including those entities that are eligible to issue tax-exempt bonds, and that made or acquired a FFELP loan on or before September 27, 2007.

- The lender is a qualified scholarship funding corporation established by a state or one or more political subdivisions, that has not elected to cease status as a qualified scholarship funding corporation and that made or acquired a FFELP loan on or before September 27, 2007.
  [§150(d)(2) and (3) of the Internal Revenue Code of 1986]

- The lender is a tax-exempt organization as described in §501(c)(3) of the Internal Revenue Code of 1986 that made or acquired a FFELP loan on or before September 27, 2007.

- The lender is acting as an eligible lender trustee (ELT) on behalf of an entity (other than an eligible school lender) that is a state or nonprofit entity, or a special purpose entity for a state or nonprofit entity, and that was the sole beneficial owner of a loan eligible for special allowance payments on September 27, 2007.
  - A *state or nonprofit entity* is an entity as described in the bullets above, regardless of whether that entity is an eligible lender.
  - A *special purpose entity* is an entity established for the limited purpose of financing the acquisition of loans from (or at the direction of) a state or nonprofit entity, or for servicing and collecting such loans, and that is established by the state or nonprofit entity or from an established special purpose entity.
  - A special purpose entity is a *related special purpose entity* of a state or nonprofit entity if it holds any interest in loans acquired from (or at the direction of) the state or nonprofit entity or from an established special purpose entity.

  A lender may receive compensation for reasonable and customary fees for acting as an ELT on behalf of a state or nonprofit entity. Fees are considered reasonable and customary if either of the following applies:
  - The fees do not exceed the amounts the ELT received for similar services on similar loan portfolios of the state or nonprofit entity, or special purpose entity, that are not eligible for special allowance payments at the rate paid to an eligible not-for-profit holder.
  - The fees do not exceed an amount as determined by another method requested by the state or nonprofit entity and that the Department considers reliable.

  If an ELT receives fees in excess of the reasonable and customary fees on loans owned by a state or nonprofit entity, or related special purpose entity, those loans no longer qualify for special allowance payments at the rate paid to an eligible not-for-profit holder.

[HEA §435(p)(1); §682.302(f)(3)(i) – (iii) and (viii); DCL FP-07-12]

The state may waive the above requirements for a new eligible not-for-profit holder that it determines to be necessary to fill a public purpose of that state. A state may not waive any requirements for trustees.
[HEA §435(p)(2)(A)(ii); §682.302(f)(3)(iv); DCL FP-07-12]

A lender is not considered to be an eligible not-for-profit holder if any of the following conditions occur:

- The lender is a school lender.

- The state or nonprofit entity, or related special purpose entity, (directly or through an ELT) is owned or controlled, in whole or in part, by a for-profit entity. A for-profit entity has ownership and control of a state or nonprofit entity or its related special purpose entity if any of the following occurs:

  - The for-profit entity is a member or shareholder of a state or nonprofit entity, or its special purpose entity, that is a membership or stock corporation, and the for-profit entity has sufficient power to control the state or nonprofit entity or its special purpose entity.

    - A for-profit entity has sufficient power to control a state or nonprofit entity or its special purpose entity if it possesses directly (or represents, alone or with other persons) under a voting trust, power of attorney, proxy, or similar agreement, one or more persons who hold a sufficient voting percentage of the membership interests or voting securities that direct or cause the direction of the management and policies of the state or nonprofit entity or its related special purpose entity.
      [§682.302(f)(3)(vi)(A)]

  - The for-profit entity employs or appoints individuals that together represent a majority of the state, nonprofit, or special purpose entity's board of trustees or directors, or a majority of that board's audit, executive, or compensation committee.

    - An individual is considered to be employed or appointed by a for-profit entity if the entity employs a family member of that individual [as defined in §600.21(f)], unless the Department determines that the specific nature of the family member's employment is not likely to affect the integrity of decisions made by the board or committee member.
      [§682.302(f)(3)(vi)(B)]

    - If a state, nonprofit, or special purpose entity does not have a board of trustees or directors, or associated committees, the for-profit entity is authorized by law, agreement, or otherwise to approve decisions by the entity regarding its audits, investments, hiring, retention, or compensation of officials unless the Department determines that the authority to approve those decisions is not likely to affect the integrity of the decisions.
    [§682.302(f)(3)(v)]

- The lender (directly or through an ELT or a special purpose entity) is not the sole owner of the beneficial interest in, and the income from a loan.

  - *Beneficial owner* (including *beneficial ownership* and *owner of a beneficial interest*) is the entity that has the rights to a loan or income from a loan that are normal occurrences of ownership. This includes the right to receive, possess, use, and sell, or otherwise exercise control over, a loan and the income from a loan. The ownership may be subject to any rights granted and limitations imposed in connection with or related to the granting of a security interest, and subject to any limitations on those rights as a result of the entity not qualifying as an eligible lender or holder.

  - *Sole owner* is the entity that has all the rights to a loan or the income from a loan subject to the rights and limitations above, excluding any other entity with respect to both a loan and the income from a loan.

[HEA §435(p)(2)(B) and (C); §682.302(f)(3)(v) and (vi); DCL FP-07-12]

A state or nonprofit entity that has sole ownership of the beneficial interest in and income from a loan will retain that ownership if the entity transfers the beneficial interest to its special purpose entity and no other party owns any beneficial interest or residual ownership interest in, or income from, the loan.

A state or nonprofit entity, its related special purpose entity, or an ELT is not considered to be owned or controlled by a for-profit entity, and will not lose its status as sole owner of beneficial interest in and income from a loan by granting security interest in, or using a loan or income from a loan as collateral, to secure a debt obligation for which the not-for-profit holder is the issuer of the debt obligation.
[HEA §435(p)(2)(E); §682.302(f)(3)(ix); DCL FP-07-12]

If a special allowance rate calculation results in a negative number on a loan first disbursed prior to April 1, 2006, special allowance will not be paid for that loan type for that quarter. If a special allowance rate calculation results in a negative number on a loan first disbursed on or after April 1, 2006, the lender must remit the excess interest to the Department.

The amount of each quarterly special allowance payment will vary according to the type of loan, the date the loan was disbursed, the loan period, and, in some cases, the number of quarters for which the loan has been outstanding, or the loan's status.
[§682.302(c)]

If an eligible not-for-profit holder sells a loan to a lender that does not qualify as an eligible not-for-profit holder, the special allowance payment for that loan will be calculated using the special allowance factor prescribed for a lender that does not qualify as an eligible not-for-profit holder beginning on the date the loan is sold.
[HEA §435(p)(3); §682.302(f)(3)(xiii); DCL FP-07-12]

### Not-For-Profit Holder Designation

In order for a lender to be designated as a not-for-profit holder (directly or through an ELT) for purposes of special allowance payments, two certifications must be submitted to the Department: a certification signed by the state or nonprofit entity's chief executive officer (CEO) and a certification or opinion signed by the state or nonprofit entity's external legal counsel or the office of the state's attorney general. For additional information on these certifications, refer to DCL FP-07-12 dated December 28, 2007.
[§682.302(f)(3)(x)]

*Change in Not-for-Profit Holder Designation*

If a state or nonprofit entity designated as an eligible not-for-profit holder (directly or through an ELT) becomes aware of a change that may cause loss of that eligibility, the state or nonprofit entity must, within 10 business days of becoming aware of the change, do each of the following:

- Submit the details of the change to the Department.

- Cease special allowance billing at the eligible not-for-profit holder rate from the date of the change to the date the Department determines that the state or nonprofit entity has not lost its eligibility due to the change. If the Department determines that there is no loss of eligibility, the eligible not-for-profit holder may bill for special allowance in the following quarter in an amount equal to the difference in the special allowance rate paid during the change period and the special allowance rate paid to an eligible not-for-profit holder.

[§682.302(xii)]

## Special Allowance Formulas — Figure A-1

**FORMULA 1**
ELIGIBLE NOT-FOR-PROFIT HOLDERS
(AVERAGE 3-MONTH COMMERCIAL PAPER RATE + 1.34% – APPLICABLE INTEREST RATE OF THE LOAN) ÷ 4

OTHER ELIGIBLE LENDERS
(AVERAGE 3-MONTH COMMERCIAL PAPER RATE + 1.19% – APPLICABLE INTEREST RATE OF THE LOAN) ÷ 4

- Stafford loans first disbursed on or after October 1, 2007, when such loans are in periods of in-school, grace, or deferment (during all other periods, special allowance is calculated using **Formula 2** below).

**FORMULA 2**
ELIGIBLE NOT-FOR-PROFIT HOLDERS
(AVERAGE 3-MONTH COMMERCIAL PAPER RATE + 1.94% – APPLICABLE INTEREST RATE OF THE LOAN) ÷ 4

OTHER ELIGIBLE LENDERS
(AVERAGE 3-MONTH COMMERCIAL PAPER RATE + 1.79% – APPLICABLE INTEREST RATE OF THE LOAN) ÷ 4

- Stafford loans first disbursed on or after October 1, 2007, except when such loans are in periods of in-school, grace, or deferment (in which case special allowance is calculated using **Formula 1** above).

**FORMULA 3**
NOT-FOR-PROFIT HOLDERS
(AVERAGE 3-MONTH COMMERCIAL PAPER RATE + 1.94% – APPLICABLE INTEREST RATE OF THE LOAN) ÷ 4

FOR-PROFIT LENDERS
(AVERAGE 3-MONTH COMMERCIAL PAPER RATE + 1.79% – APPLICABLE INTEREST RATE OF THE LOAN) ÷ 4

- PLUS Loans first disbursed on or after October 1, 2007.

**FORMULA 4**
ELIGIBLE NOT-FOR-PROFIT HOLDERS
(AVERAGE 3-MONTH COMMERCIAL PAPER RATE + 2.24% – APPLICABLE INTEREST RATE OF THE LOAN) ÷ 4

OTHER ELIGIBLE LENDERS
(AVERAGE 3-MONTH COMMERCIAL PAPER RATE + 2.09% – APPLICABLE INTEREST RATE OF THE LOAN) ÷ 4

- Consolidation loans first disbursed on or after October 1, 2007.

**FORMULA 5**
(AVERAGE 3-MONTH COMMERCIAL PAPER RATE + 1.74% – APPLICABLE INTEREST RATE OF THE LOAN) ÷ 4

- Stafford loans first disbursed on or after January 1, 2000, when such loans are in periods of in-school, grace, or deferment (during all other periods, special allowance is calculated using **Formula 6** below).

**FORMULA 6**
(AVERAGE 3-MONTH COMMERCIAL PAPER RATE + 2.34% – APPLICABLE INTEREST RATE OF THE LOAN) ÷ 4

- Stafford loans first disbursed on or after January 1, 2000, except when such loans are in periods of in-school, grace, or deferment (in which case special allowance is calculated using **Formula 5** above).

**FORMULA 7**
(AVERAGE 3-MONTH COMMERCIAL PAPER RATE + 2.64% – APPLICABLE INTEREST RATE OF THE LOAN) ÷ 4

- PLUS loans first disbursed on or after January 1, 2000.
- Consolidation loans made from applications received by lenders on or after January 1, 2000.

**FORMULA 8**
(AVERAGE 91-DAY T-BILL + 2.2% – APPLICABLE INTEREST RATE OF THE LOAN) ÷ 4

- Stafford loans first disbursed on or after July 1, 1998, but before January 1, 2000, when such loans are in periods of in-school, grace, or deferment (during all other periods, special allowance is calculated using **Formula 9** below).

**FORMULA 9**
(AVERAGE 91-DAY T-BILL + 2.8% – APPLICABLE INTEREST RATE OF THE LOAN) ÷ 4

- Stafford loans first disbursed on or after July 1, 1998, but before January 1, 2000, except when such loans are in periods of in-school, grace, or deferment (in which case special allowance is calculated using **Formula 8** above).

**FORMULA 10**
(AVERAGE 91-DAY T-BILL + 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 11** below).

**FORMULA 11**
(AVERAGE 91-DAY T-BILL + 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 10** 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 on or after October 1, 1992, but before January 1, 2000.
- SLS loans first disbursed on or after October 1, 1992.
- Consolidation loans made on or after October 1, 1992, from applications received by lenders before January 1, 2000.

**FORMULA 12**
(AVERAGE 91-DAY T-BILL + 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 13**
(AVERAGE 91-DAY T-BILL + 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 14**
(AVERAGE 91-DAY T-BILL + 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.

- Subsidized and Nonsubsidized Stafford loans, and fixed-rate PLUS loans, first disbursed before October 1, 1981.

* Decimal equivalents are: 0.125, 0.250, 0.375, 0.500, 0.625, 0.750, 0.875, or the next whole percent.

## Examples of Special Allowance Calculations — Figure A-2

**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 11**.

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%) ÷ 4 = 0.16%

If the loan has an average daily balance for the quarter of $3,000, applying the above rate yields the following quarterly special allowance amount:

0.0016 X $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 11** (special allowance for the previous loan is calculated using **Formula 14**).

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%) ÷ 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.

Loans made or purchased before February 8, 2006, with funds obtained by the holder from the proceeds of tax-exempt obligations are eligible for special allowance payment, subject to the following conditions:

- Special allowance is limited to one-half the maximum applicable rate for loans made or purchased with funds obtained from tax-exempt obligations originally issued prior to October 1, 1993, and with funds derived from default reimbursement collections, interest, or other income related to eligible loans made or purchased with those tax-exempt funds. Minimum special allowance rates apply. If such a tax-exempt obligation is refunded, retired, or defeased on or after September 30, 2004, special allowance is paid at the applicable, regular special allowance rates.
  [§682.302(c)(3)(i), (ii), and (iii)]

- Special allowance is paid at the maximum applicable rate for loans made or purchased with funds obtained from tax-exempt obligations that were originally issued on or after October 1, 1993, and loans made or purchased with funds derived from default reimbursement collections, interest, or other income related to eligible loans made or purchased with those tax-exempt funds. Minimum special allowance rates do not apply.
  [§682.302(c)(4)]

A loan that is financed by proceeds of tax-exempt obligations originally issued prior to October 1, 1993, or that is otherwise subject to the maximum/minimum provisions for special allowance, and that is held by or on behalf of an authority is subject to such special allowance payments only if the authority meets the nondiscrimination requirements of §682.800.
[HEA §438(e); §682.302(e)]

A loan that is financed by tax-exempt obligations originally issued prior to October 1, 1993, will revert to the regular special allowance rates paid on other loans if any of the following occurs after September 30, 2004:

- The tax-exempt bond issue matures or is refunded, retired, or defeased.

- The loan was refinanced with funds obtained from a source other than tax-exempt obligations originally issued prior to October 1, 1993, or reimbursement collections, interest, or other income related to eligible loans made or purchased with those tax-exempt funds.

- The loan was sold or transferred to any other loan holder.
  [HEA §438(b)(2)(A), (B), and (E) through (I); DCL FP-06-04]

A loan also becomes subject to the regular special allowance rate if either of the following applies:

- The loan was made or purchased on or after February 8, 2006.

- The loan was not earning the minimum quarterly special allowance as of February 8, 2006.
  [HEA §438(b)(2)(B)(vi); DCL FP-06-04]

Certain loan holders remain subject to the maximum/minimum special allowance rates on eligible loans until December 31, 2010, if all of the following apply:

- The holder was a unit of the state or local government or a nonprofit private entity as of February 8, 2006, and during the quarter for which the special allowance is paid.

- The holder was not owned or controlled by, or under the common ownership or control with, a for-profit entity as of February 8, 2006, and during the quarter for which special allowance is paid.

- The holder held, directly or through any subsidiary, affiliate, or trustee, a total unpaid balance of principal equal to or less than $100 million on loans for which maximum/minimum special allowance was paid in the most recent quarterly payment prior to September 30, 2005.
  [HEA §438(b)(2)(B)(vii); DCL FP-06-04]

### Excess Interest Rates

The amount of excess interest that a lender must remit on a qualifying loan is determined by multiplying the average daily principal balance (not including unearned interest added to principal) of the loan by the applicable excess interest rate.

## Excess Interest Formulas — Figure A-3

**FORMULA 1**
ELIGIBLE NOT-FOR-PROFIT HOLDERS
(APPLICABLE INTEREST RATE OF THE LOAN – AVERAGE 3-MONTH COMMERCIAL PAPER RATE + 1.94%*) ÷ 4

OTHER ELIGIBLE LENDERS
(APPLICABLE INTEREST RATE OF THE LOAN – AVERAGE 3-MONTH COMMERCIAL PAPER RATE + 1.79%*) ÷ 4

- Stafford loans first disbursed on or after October 1, 2007, when such loans are in repayment.

**FORMULA 2**
ELIGIBLE NOT-FOR-PROFIT HOLDERS
(APPLICABLE INTEREST RATE OF THE LOAN – AVERAGE 3-MONTH COMMERCIAL PAPER RATE + 1.34%*) ÷ 4

OTHER ELIGIBLE LENDERS
(APPLICABLE INTEREST RATE OF THE LOAN – AVERAGE 3-MONTH COMMERCIAL PAPER RATE + 1.19%*) ÷ 4

- Stafford loans first disbursed on or after October 1, 2007, when such loans are in an in-school, grace, or deferment period.

**FORMULA 3**
ELIGIBLE NOT-FOR-PROFIT HOLDERS
(APPLICABLE INTEREST RATE OF THE LOAN – AVERAGE 3-MONTH COMMERCIAL PAPER RATE + 1.94%*) ÷ 4

OTHER ELIGIBLE LENDERS
(APPLICABLE INTEREST RATE OF THE LOAN – AVERAGE 3-MONTH COMMERCIAL PAPER RATE + 1.79%*) ÷ 4

- PLUS Loans first disbursed on or after October 1, 2007.

**FORMULA 4**
ELIGIBLE NOT-FOR-PROFIT HOLDERS
(APPLICABLE INTEREST RATE OF THE LOAN – AVERAGE 3-MONTH COMMERCIAL PAPER RATE + 2.24%*) ÷ 4

OTHER ELIGIBLE LENDERS
(APPLICABLE INTEREST RATE OF THE LOAN – AVERAGE 3-MONTH COMMERCIAL PAPER RATE + 2.09%*) ÷ 4

- Consolidation loans first disbursed on or after October 1, 2007.

**FORMULA 5**
(APPLICABLE INTEREST RATE OF THE LOAN – AVERAGE 3-MONTH COMMERCIAL PAPER RATE + 2.34%*) ÷ 4

- Stafford loans first disbursed on or after April 1, 2006, and prior to October 1, 2007, when such loans are in repayment.

**FORMULA 6**
(APPLICABLE INTEREST RATE OF THE LOAN – AVERAGE 3-MONTH COMMERCIAL PAPER RATE + 1.74%*) ÷ 4

- Stafford loans first disbursed on or after April 1, 2006, and prior to October 1, 2007, when such loans are in an in-school, grace, or deferment period.

**FORMULA 7**
(APPLICABLE INTEREST RATE OF THE LOAN – AVERAGE 3-MONTH COMMERCIAL PAPER RATE + 2.64%*) ÷ 4

- Consolidation and PLUS loans first disbursed on or after April 1, 2006, and prior to October 1, 2007.

* The average of the bond equivalent rates of the quotes of the 3-month commercial paper (financial) rates in effect for each of the days in the quarter (also called the 3-month commercial paper rate) as reported by the Federal Reserve in Publication H-15 for each quarter plus the indicated percentage is known as the special allowance support level.

## Example of Excess Interest Calculations — Figure A-4

A PLUS loan is first disbursed on October 2, 2006, and is accruing interest at 8.5%. Excess interest for this loan is calculated using **Formula 7**.

For the quarter ending December 31, 2006, the average 3-month commercial rate is 5.38%. The special allowance support level is 8.02% (5.38% + 2.64%). The quarterly excess interest rate is calculated as follows:

$$(8.50\% - 8.02\%) \div 4 = 0.12\%$$

If the loan has an average daily principal balance for the quarter of $1,000, applying the above rate yields the following quarterly excess interest amount:

$$0.0012 \times \$1{,}000 = \$1.20$$

## 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.
  [§682.302(d)(1)(i)]

- The date the lender receives a claim payment on the loan.
  [§682.302(d)(1)(iii)]

- 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.
  [§682.302(d)(1)(iv)]

- 30 days after the date the lender receives a claim returned solely due to inadequate documentation, unless the claim is resubmitted with all required documentation within 30 days.
  [§682.302(d)(1)(vii)]

- 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 on or before the 60th day.
  [§682.302(d)(1)(v)]

- 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.
  [§682.302(d)(1)(iii)]

- 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 5.17).
  [§682.412(d)(1)]

- For a loan first disbursed on or after October 1, 1992, the date of disbursement (retroactive), if a loan is unconsummated.
  [§682.302(d)(2)]

- The date the lender determines the loan is legally unenforceable based on the receipt of a valid identity theft report. If, within 3 years of this date, a lender receives evidence that the loan was made as the result of the crime of identity theft, the lender may submit a claim and receive federal interest benefits and special allowance payments that would have accrued on the loan. See Subsection 13.8.E for more information on loan discharge as a result of the crime of identity theft.
  [§682.208(b)(4); §682.302(d)(1)(viii)]

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)(2)]

## 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 (LaRS report). The lender also must report the status and balance of each FFELP loan held and make any adjustments to submissions covering earlier quarters. The lender can submit the LaRS report through the automated Lender Reporting System or via the paper LaRS report.

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 Subsection A.1.B and A.2.B). Any required refund should be made as an adjustment to the lender's next quarterly LaRS report. 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.
[§682, Appendix D]

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 LaRS report 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 LaRS report shows that information on the form is either inaccurate or insufficiently documented.
[§682.414(a)(4)(ii)(L)]

## A.3.A General Instructions for Completing the LaRS Report

The Lender's Interest and Special Allowance Request and Report (LaRS report) is used by the Department to calculate interest benefits and special allowance payments due to a lender, to calculate origination fees and lender loan fees owed to the Department, and to obtain information on a lender's portfolio. To be considered timely, the report must be submitted by the lender either in electronic or paper format within 90 days of the quarter's end (quarters end on March 31, June 30, September 30, and December 31).

The Department will authorize the payment of any interest benefits or special allowance due within 30 days of receiving an accurate and complete LaRS report. A LaRS report is not considered accurate and complete if any of the following apply:

- The lender requests payments to which it is not entitled.
- The lender includes loans on the report 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 report in the manner prescribed by the Department.

If an incomplete report is submitted, it will be returned to the lender unprocessed.

### The Lender Reporting System

The lender may submit the LaRS report through the automated Lender Reporting System or via the paper LaRS report. The Lender Reporting System integrates FFELP loan data formerly reported on the ED Form 799 with the Department's Financial Management System (FMS). It enables a lender to electronically complete and submit the LaRS report using file transfer or by direct on-line data entry.

Prior to entering LaRS data electronically either by direct data entry or file transfer, a lender is required to submit to the Department all of the following:

- A completed and signed *Organization Participation Agreement* (OPA). This document serves as the legal agreement between the Department and the lender. The OPA eliminates the need for the submission of a paper report containing a signature each quarter.

- A completed Lender Application Process (LAP). The LAP allows lenders and servicers to verify and update their demographic information. Even lenders who will not be using the electronic LaRS process must complete the LAP.

- A completed FMS security form. This form identifies individuals who will be gaining access to FMS and using the electronic LaRS process. Lenders are required to complete, sign, and mail the security form to the Department's office of Federal Student Aid (FSA). Once access is authorized, a notice containing a unique User ID and password will be provided to the lender.

### Completing the LaRS Report

The following general rules apply with respect to how numbers should be presented on the LaRS report:

- Monetary amounts listed on the report—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 report. 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 five places after the decimal point.

An on-line version of the report and its instructions can be found at the Department's Financial Partners Portal at www.fp.ed.gov/PORTALSWebApp/fp/fms.jsp. General instructions, and instructions for completing page 1 and each part of the paper LaRS report are included after the last page of the report.

If a lender submits a paper LaRS report, all pages—including any continuation pages added—must be numbered sequentially. If the lender needs additional space to complete any part of the report, it should make a copy of that portion and use it as a continuation page.

In lieu of an actual paper LaRS report, 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 LaRS report 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 lender must ensure that the complete certification statement from page 1 of the report is included on the printout.

A lender may contract with a servicer to prepare the report on its behalf. However, the lender remains responsible for all entries made on the LaRS report and may be liable for any information in the report that results in the receipt of an overpayment of benefits.
[§682.203(a)]

### Submitting the LaRS Report

A lender may submit the LaRS report electronically either by direct on-line data entry through FMS or via file transfer. Interested users must first enroll in the file transfer process. Through file transfer, the lender submits an electronic data file to the FMS Student Aid Internet Gateway (SAIG) mailbox. The file is pulled onto the FMS servers, allowing the data contained in the report to be loaded and validated. Once the data has been imported, the lender may view the information via the on-line LaRS screens.

If a lender is submitting a paper LaRS report, the report should be sent to the Processing Center at the address on the first page of the report. Because the Processing Center uses a post office box number, the lender must send its reports 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 reports 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 *LaRS External Users Guide* on the Department's Financial Partners Portal at www.fp.ed.gov/PORTALSWebApp/fp/proj1.jsp. Lenders needing further assistance may also contact the Department's office of Federal Student Aid (FSA) at 202-377-3322 or by e-mail at OFSA.LR@ed.gov.

## A.3.B
## Summary of the LaRS Report

The Lender's Interest and Special Allowance Request and Report (LaRS report) has an introductory page and is divided into five parts. The introductory page and each part is described in this subsection. General instructions for completing the LaRS report are provided in the preceding Subsection A.3.A.

#### Page 1

On page 1, the lender provides identifying information about itself. If the lender submits a paper LaRS report, an official authorized by the lender to sign the report must endorse the certification statement on this page in ink. Reports signed with signature stamps and unsigned reports will be returned to the lender unprocessed.

#### Part I: 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. For more information on origination fees and reporting requirements, see Subsection 3.5.A and Section 7.9.

#### Part II: 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 the appropriate status (see Section A.1).

#### Part III: 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.

#### Part IV: Loan Activity

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 V—is used by the Department to track the balances and relative statuses of each loan type. Part IV 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 report.

#### Part V: Loan Portfolio Status

In this part, the lender reports the status of its FFELP loans at the end of the quarter. For Part V, 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.

## A.3.C
## LaRS Data and Codes

It is imperative that a lender submit complete and accurate information on the Lender's Interest and Special Allowance Request and Report (LaRS report). 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 that it lists on a LaRS report:

- 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 and 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.

Lenders report much of the information on the LaRS report using codes specific to each loan type, interest rate, and disbursement "class." A lender should ensure that it includes accurate codes and code combinations on each quarterly report it submits. The Department will carefully edit and cross-reference the codes when processing the LaRS report.

For a comprehensive list of codes and valid code combinations, see the tables in Figure A-5.

## A.3.D Deactivation

A lender may be deactivated from the FFELP if it fails to submit a Lender's Interest and Special Allowance Request and Report (LaRS report) for two consecutive quarters, or if it submits a report rejected due to errors or incomplete data and does not subsequently correct the report. 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 a LaRS report submission. A lender should use the *LaRS Remittance Form* when submitting monies it owes to the Department.
- The lender may work with the Department to correct LaRS reports and have them reprocessed, if reports were previously submitted but rejected due to erroneous or incomplete data.
- The lender may successfully submit all outstanding LaRS reports, 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; DCL 95-L-180]

# A.4
# Consistency between LaRS and NSLDS Data

The Department will use data from the National Student Loan Data System (NSLDS) to monitor the plausibility of data submitted on Lender's Interest and Special Allowance Request and Report (LaRS report) submissions. A lender should ensure that the FFELP loan data it includes on a LaRS report 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 LaRS 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.

# LaRS Special Allowance and Interest Rate Reporting for FFELP Loans — Figure A-5

| LaRS Special Allowance and Interest Rate Reporting For FFELP Loans | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Loan Type Code** | | | **Special Allowance Factor** | | | | | | | | |
| SF[1] | Subsidized Stafford and Subsidized FISL loans | | SA | 3.50% round up to 1/8% | | SL | 3.10% | | CK | 2.09% |
| PL | PLUS (parent) loans and Grad PLUS loans | | SB | 3.50% | | CA, CE | 1.74% | | CI ENFP [6] | 1.34% |
| PL[2] | PLUS (student) and ALAS loans | | SD | 3.25% | | CB, CF | 2.34% | | CJ, CM ENFP [6] | 1.94% |
| SU | Unsubsidized Stafford loans | | SE, SG | 3.10% | | CC, CG | 2.64% | | CK ENFP [6] | 2.24% |
| SL | SLS loans | | SH | 2.50% / 3.10% (see below) | | CD, CH | 2.64% | | X✱ [4] 3.50%, tax exempt | |
| SL[3] | PLUS (student) and ALAS loans | | SJ | 2.20% | | CI | 1.19% | | | |
| CL | Consolidation loans | | SK | 2.80% | | CJ, CM | 1.79% | | | |

| **Special Allowance Codes - For loans made or purchased with taxable funds or tax-exempt funds not subject to the minimum/maximum rules[4]** | | | | |
|---|---|---|---|---|
| SA | All loans first disbursed prior to 10-1-1981. (Formula: Average 90-day Tbill + 3.50% - Interest Rate / 4, rounded up to the nearest 1/8 percent) | | SB | All loans first disbursed on/after 10-1-1981 through 10-16-1986 and loans first disbursed on/after 10-17-1986 through 11-15-1986 with a loan period begin date prior to 11-16-1986. (Formula: Average 90-day Tbill + 3.50% - Interest Rate / 4) |
| SC | All loans first disbursed during sequester periods (1st four quarters after first disbursement). These sequester periods included 3-1-1986 to 9-30-1986 and 10-1-1989 to 12-31-1989. (Formulas no longer in effect) | | SD | All loans first disbursed on/after 10-17-1986 through 11-15-1986 with a loan period begin date on/after 11-16-1986, and loans first disbursed on/after 11-16-1986 through 9-30-1992. (Formula: Average 90-day Tbill + 3.25% - Interest Rate / 4) |
| SE | All loans first disbursed on/after 10-1-1992 through 6-30-1994, and consolidation loans based on applications received by the lender prior to 11-13-1997. (Formula: Average 90-day Tbill + 3.10% - Interest Rate / 4) | | SG | All Stafford and PLUS loans first disbursed on/after 7-1-1994 through 6-30-1998 (except Stafford loans first disbursed on/after 7-1-1995 through 6-30-1998 while in school, grace, or deferment status) and consolidation loans based on applications received by the lender on/after 11-13-1997 through 9-30-1998. (Formula: Average 90-day Tbill + 3.10% - Interest Rate / 4) |
| SH | All Stafford loans first disbursed on/after 7-1-1995 through 6-30-1998 while in school, grace, or deferment status, and PLUS loans first disbursed on/after 7-1-1998 through 12-31-1999. (Stafford Formula: Average 90-day Tbill + 2.50% - Interest Rate / 4) (PLUS Formula: Average 90-day Tbill + 3.10% - Interest Rate / 4) | | SJ | All Stafford loans first disbursed on/after 7-1-1998 through 12-31-1999 while in school, grace, or deferment status. (Formula: Average 90-day Tbill + 2.20% - Interest Rate / 4) |
| SK | All Stafford loans first disbursed on/after 7-1-1998 through 12-31-1999 while in a status other than in-school, grace or deferment status. (Formula: Average 90-day Tbill + 2.80% - Interest Rate / 4) | | SL | Consolidation loans based on applications received by the lender on/after 10-1-1998 through 12-31-1999. (Formula: Average 90-day Tbill + 3.10% - Interest Rate / 4) |
| CA | All Stafford loans first disbursed on/after 1-1-2000 through 3-31-2006 while in school, grace, or deferment status. (Formula: Average 3-month CP + 1.74% - Interest Rate / 4) | | CB | All Stafford loans first disbursed on/after 1-1-2000 through 3-31-2006 while in a status other than in-school, grace, or deferment status. (Formula: Average 3-month CP + 2.34% - Interest Rate / 4) |
| CC | Consolidation loans based on applications received by the lender on/after 1-1-2000 through first disbursed on/before 3-31-2006. (Formula: Average 3-month CP + 2.64% - Interest Rate / 4) | | CD | PLUS loans first disbursed on/after 1-1-2000 through 3-31-2006. (Formula: Average 3-month CP + 2.64% - Interest Rate / 4) |
| CE | All Stafford loans first disbursed on/after 4-1-2006 while in school, grace, or deferment status. (Formula: Average 3-month CP + 1.74% - Interest Rate / 4, subject to excess interest rebates) | | CF | All Stafford loans first disbursed on/after 4-1-2006 while in a status other than in-school, grace, or deferment status. (Formula: Average 3-month CP + 2.34% - Interest Rate / 4, subject to excess interest rebates) |
| CG | Consolidation loans first disbursed on/after 4-1-2006. (Formula: Average 3-month CP + 2.64% - Interest Rate / 4, subject to excess interest rebates) | | CH | PLUS loans first disbursed on/after 4-1-2006. (Formula: Average 3-month CP + 2.64% - Interest Rate / 4, subject to excess interest rebates) |
| CI | All Stafford loans first disbursed on/after 10-1-2007 while in school, grace, or deferment status, including loans held by an ENFP[6]. (Formula: Average 3-month CP + 1.19% - Interest Rate / 4, subject to excess interest rebates) (ENFP Formula: Average 3-month CP + 1.34% - Interest Rate / 4, subject to excess interest rebates) | | CJ | All Stafford loans first disbursed on/after 10-1-2007 while in a status other than in-school, grace, or deferment status, including loans held by an ENFP[6]. (Formula: Average 3-month CP + 1.79% - Interest Rate / 4, subject to excess interest rebates) (ENFP Formula: Average 3-month CP + 1.94% - Interest Rate / 4, subject to excess interest rebates) |
| CK | Consolidation loans first disbursed on/after 10-1-2007, including loans held by an ENFP[6]. (Formula: Average 3-month CP + 2.09% - Interest Rate / 4, subject to excess interest rebates) (ENFP Formula: Average 3-month CP + 2.24% - Interest Rate / 4, subject to excess interest rebates) | | CM | PLUS loans first disbursed on/after 10-1-2007, including loans held by an ENFP[6]. (Formula: Average 3-month CP + 1.79% - Interest Rate / 4, subject to excess interest rebates) (ENFP Formula: Average 3-month CP + 1.94% - Interest Rate / 4, subject to excess interest rebates) |

Prepared by the NCHELP Regulations Committee — March 2008

# LaRS Special Allowance and Interest Rate Reporting for FFELP Loans *(continued)*

| Special Allowance Codes - For loans made or purchased with tax exempt funds subject to the minimum/maximum rules[4] | | | | |
|---|---|---|---|---|
| SA | All loans first disbursed prior to 10-1-1980. (Formula: Average 90-day Tbill + 3.50% - Interest Rate / 4, rounded up to the nearest 1/8 percent) | | XA | All loans first disbursed on/after 10-1-1980 through 9-30-1981. (Formula: Average 90-day Tbill + 3.50% - Interest Rate / 4 / 2, or 9.50% - Interest Rate, whichever is greater) |
| XB | All loans first disbursed on/after 10-1-1981 through 9-30-1992. (Formula: Average 90-day Tbill + 3.50% - Interest Rate / 4 / 2, or 9.50% - Interest Rate, whichever is greater) | | XC | All loans first disbursed during sequester periods (1st four quarters after first disbursement). These sequester periods include 3-1-1986 to 9-30-1986 and 10-1-1989 to 12-31-1989. (Formulas no longer in effect) |
| XE | All loans first disbursed on/after 10-1-1992 through 6-30-1994, and consolidation loans based on applications received by the lender prior to 11-13-1997. (Formula: Average 90-day Tbill + 3.50% - Interest Rate / 4 / 2, or 9.50% - Interest Rate, whichever is greater) | | XG | All Stafford and PLUS loans first disbursed on/after 7-1-1994 through 6-30-1998 (except Stafford loans while in school, grace, or deferment) and consolidation loans based on applications received by the lender on/after 11-13-1997 through 9-30-1998. (Formula: Average 90-day Tbill + 3.50% - Interest Rate / 4 / 2, or 9.50% - Interest Rate, whichever is greater) |
| XH | All Stafford loans first disbursed on/after 7-1-1995 through 6-30-1998 while in school, grace, or deferment, and PLUS loans first disbursed on/after 7-1-1998 through 3-31-2006, for quarters prior to 4-1-2006. (Formula: Average 90-day Tbill + 3.50% - Interest Rate / 4 / 2, or 9.50% - Interest Rate, whichever is greater) | | XJ | All Stafford loans first disbursed on/after 7-1-1998 through 3-31-2006 while in school, grace, or deferment. (Formula: Average 90-day Tbill + 3.50% - Interest Rate / 4 / 2, or 9.50% - Interest Rate, whichever is greater) |
| XK | All Stafford loans first disbursed on/after 7-1-1998 through 3-31-2006 while in a status other than in-school, grace or deferment. (Formula: Average 90-day Tbill + 3.50% - Interest Rate / 4 / 2, or 9.50% - Interest Rate, whichever is greater) | | XL | Consolidation loans based on applications received by the lender on/after 10-1-1998 through first disbursement on/before 3-31-2006. (Formula: Average 90-day Tbill + 3.50% - Interest Rate / 4 / 2, or 9.50% - Interest Rate, whichever is greater) |
| XM | All Stafford loans first disbursed on/after 4-1-2006 while in school, grace, or deferment, held by lenders eligible for the HERA of 2005 special exemptions. (Formula: Average 90-day Tbill + 3.50% - Interest Rate / 4 / 2, or 9.50% - Interest Rate, whichever is greater, subject to excess interest rebates) | | XN | All Stafford loans first disbursed on/after 4-1-2006 while in a status other than in-school, grace or deferment, held by lenders eligible for the HERA of 2005 special exemptions. (Formula: Average 90-day Tbill + 3.50% - Interest Rate / 4 / 2, or 9.50% - Interest Rate, whichever is greater, subject to excess interest rebates) |
| XO | Consolidation loans first disbursed on/after 4-1-2006, held by lenders eligible for the HERA of 2005 special exemptions. (Formula: Average 90-day Tbill + 3.50% - Interest Rate / 4 / 2, or 9.50% - Interest Rate, whichever is greater, subject to excess interest rebates) | | XP | PLUS loans first disbursed on/after 4-1-2006, held by lenders eligible for the HERA of 2005 special exemptions. (Formula: Average 90-day Tbill + 3.50% - Interest Rate / 4 / 2, or 9.50% - Interest Rate, whichever is greater, subject to excess interest rebates) |
| XQ | PLUS loans first disbursed on/after 1-1-2000 through 3-31-2006, for quarters beginning 4-1-2006 which would have been reported under the "XH" category for quarters prior to 4-1-2006. (Formula: Average 90-day Tbill + 3.50% - Interest Rate / 4 / 2, or 9.50% - Interest Rate, whichever is greater) | | | |

| Interest Rate Codes | |
|---|---|
| Fixed | For fixed rate loans, report applicable rate as decimal point. |
| .07 | Stafford loans at a fixed rate of 7% or less. |
| .99999 | Consolidation loans based on applications received by the lender on/after 10-1-1998 where the fixed interest rate is a weighted average of the underlying loan interest rates rounded up to the nearest 1/8 of a percent. |
| CVAR | PLUS loans and SLS loans made in 1986 and 1987 where the interest rate changes each January 1. |
| VAR | PLUS and SLS loans with first disbursements on or after 7-1-1987, but before 10-1-1992, where the interest rate changes each July 1. |
| EVAR | All FFELP loans that were guaranteed as variable rate loans with first disbursements on or after 10-1-1992 and Consolidation loans based on applications received by the lender between 11-13-1997 and 9-30-1998, inclusive, where the interest rate changes each July 1, and HEAL portions of Consolidation loans. |
| FVAR# | Stafford loans that were originally guaranteed as fixed rate loans, but were converted to a variable rate, where the interest rate now changes each July 1. Includes 8/10% loans except for those that fall under the FVARX category. FVAR# includes FVAR7, FVAR8, FVAR9, FVAR10. |
| FVARX | FFELP Stafford loans with a 8/10% interest rate first disbursed to prior borrowers on or after 7-23-1992 but before 10-1-1992, when such loans reach the 49th month of repayment and beyond. |
| .068 | All Stafford loans (subsidized and unsubsidized) made on or after 7-1-2006. |
| .085 | All PLUS loans (parent and Grad) made on or after 7-1-2006. |
| .060 | Subsidized Stafford loans made to undergraduate students on or after 7-1-2008. |

# LaRS Special Allowance and Interest Rate Reporting for FFELP Loans *(continued)*

| Valid Special Allowance, Loan Type, and Interest Rate Code Reporting Combinations | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Subsidized Stafford | | Unsubsidized Stafford | | PLUS[5] | | SLS[5] | | Consolidation | |
| Taxable | Tax-exempt[4] | Taxable | Tax-exempt[4] | Taxable | Tax-exempt[4] | Taxable | Tax-exempt[4] | Taxable | Tax-exempt[4] |
| SA SF .07 | SA SF .07 | SE SU .07 | XE SU .07 | SA PL .09 | XA PL .09 | SA SL .09 | XA SL .09 | SC CL .09 | XC CL .09 |
| SA SF .09 | XA SF .07 | SE SU .08 | XE SU .08 | SB PL .14 | XB PL .14 | SB SL .14 | XB SL .14 | SC CL .10 | XC CL .10 |
| SB SF .07 | XA SF .09 | SE SU .09 | XE SU .09 | SB PL .12 | XB PL .12 | SB SL .12 | XB SL .12 | SC CL .11 | XC CL .11 |
| SB SF .08 | XB SF .07 | SE SU EVAR | XE SU EVAR | SB PL CVAR | XB PL CVAR | SB SL CVAR | XB SL CVAR | SC CL .12 | XC CL .12 |
| SB SF .09 | XB SF .08 | SE SU FVAR7 | XE SU FVAR7 | SC PL .12 | XB PL VAR | SC SL .12 | XB SL VAR | SD CL .09 | XB CL .09 |
| SC SF .07 | XB SF .09 | SE SU FVAR8 | XE SU FVAR8 | SC PL VAR | XC PL .12 | SC SL VAR | XC SL .12 | SD CL .10 | XB CL .10 |
| SC SF .08 | XB SF .10 | SE SU FVAR9 | XE SU FVAR9 | SD PL .12 | XC PL VAR | SD SL .12 | XC SL VAR | SD CL .11 | XB CL .11 |
| SC SF .09 | XB SF FVAR7 | SE SU FVAR10 | XE SU FVAR10 | SD PL CVAR | XE PL EVAR | SD SL VAR | XE SL EVAR | SD CL .12 | XB CL .12 |
| SD SF .07 | XB SF FVAR8 | SG SU EVAR | XG SU EVAR | SD PL VAR | XG PL EVAR | SD SL CVAR | | SE CL .01-.25 | XE CL .01-.25 |
| SD SF .08 | XB SF FVAR9 | SH SU EVAR | XH SU EVAR | SE PL EVAR | XH PL EVAR | SE SL EVAR | | SG CL EVAR | XG CL EVAR |
| SD SF .09 | XB SF FVAR10 | SJ SU EVAR | XJ SU EVAR | SG PL EVAR | XP PL EVAR | | | SL CL .99999 | XL CL .99999 |
| SD SF .10 | XB SF FVARX | SK SU EVAR | XK SU EVAR | SH PL EVAR | XP PL .085 | | | CC CL .99999 | XO CL .99999 |
| SD SF FVAR7 | XC SF .07 | CA SU EVAR | XM SU EVAR | CD PL EVAR | XQ PL EVAR | | | CG CL .99999 | |
| SD SF FVAR8 | XC SF .08 | CB SU EVAR | XN SU EVAR | CH PL EVAR | | | | CK CL .99999 | |
| SD SF FVAR9 | XC SF .09 | CE SU EVAR | XM SU .068 | CH PL .085 | | | | | |
| SD SF FVAR10 | XE SF .07 | CF SU EVAR | XN SU .068 | CM PL .085 | | | | | |
| SD SF FVARX | XE SF .08 | CE SU .068 | | | | | | | |
| SE SF .07 | XE SF .09 | CF SU .068 | | | | | | | |
| SE SF .08 | XE SF EVAR | CI SU .068 | | | | | | | |
| SE SF .09 | XE SF FVAR7 | CJ SU .068 | | | | | | | |
| SE SF EVAR | XE SF FVAR8 | | | | | | | | |
| SE SF FVAR7 | XE SF FVAR9 | | | | | | | | |
| SE SF FVAR8 | XE SF FVAR10 | | | | | | | | |
| SE SF FVAR9 | XG SF EVAR | | | | | | | | |
| SE SF FVAR10 | XH SF EVAR | | | | | | | | |
| SG SF EVAR | XJ SF EVAR | | | | | | | | |
| SH SF EVAR | XK SF EVAR | | | | | | | | |
| SJ SF EVAR | XM SF EVAR | | | | | | | | |
| SK SF EVAR | XN SF EVAR | | | | | | | | |
| CA SF EVAR | XM SF .068 | | | | | | | | |
| CB SF EVAR | XN SF .068 | | | | | | | | |
| CE SF EVAR | | | | | | | | | |
| CF SF EVAR | | | | | | | | | |
| CE SF .068 | | | | | | | | | |
| CF SF .068 | | | | | | | | | |
| CI SF .068 | | | | | | | | | |
| CJ SF .068 | | | | | | | | | |
| CI SF .060 | | | | | | | | | |
| CJ SF .060 | | | | | | | | | |

Notes

| | |
|---|---|
| [1] | Stafford Nonsubsidized and FISL Nonsubsidized loans disbursed prior to 10-1-1981 are included within SF loan types. |
| [2] | Loans disbursed prior to 10-17-1986 and **unable** to distinguish from PLUS (parent) loans. |
| [3] | Loans disbursed prior to 10-17-1986 and **able** to distinguish from PLUS (parent) loans. |
| [4] | Loans originally made or purchased with tax-exempt funds originally issued prior to 10-1-1993 receive ½ the regular special allowance rate but not less than 9.5% minus the applicable interest rate. Loans made or purchased with tax-exempt funds originally issued on or after 10-1-1993, loans held in tax-exempt bond issues that were refunded on or after 10-1-2004, and loans made or purchased on or after 2-8-2006 regardless of funding source (except those held by lenders eligible for the HERA of 2005 special exemptions), receive regular special allowance and must be reported using the taxable special allowance codes. |
| [5] | PLUS and SLS loans first disbursed on/after 7-1-1987 but before 6-30-1994, and PLUS loans first disbursed on/after 7-1-1998 but before 12-31-1999 do not receive any special allowance if the annual interest rate calculation does not exceed the applicable maximum interest rate. PLUS loans first disbursed on/after 1-1-2000 will receive special allowance for quarters beginning 4-1-2006, even if the annual interest rate calculation does not exceed the applicable maximum interest rate. |
| [6] | Eligible Not-For-Profit (ENFP) holders may receive the increased Special Allowance Factor on loans made on or after October 1, 2007 if they meet the statutory and regulatory requirements for ENFP holders and are designated as such in the Department of Education's Lender Reporting System (LaRS). |

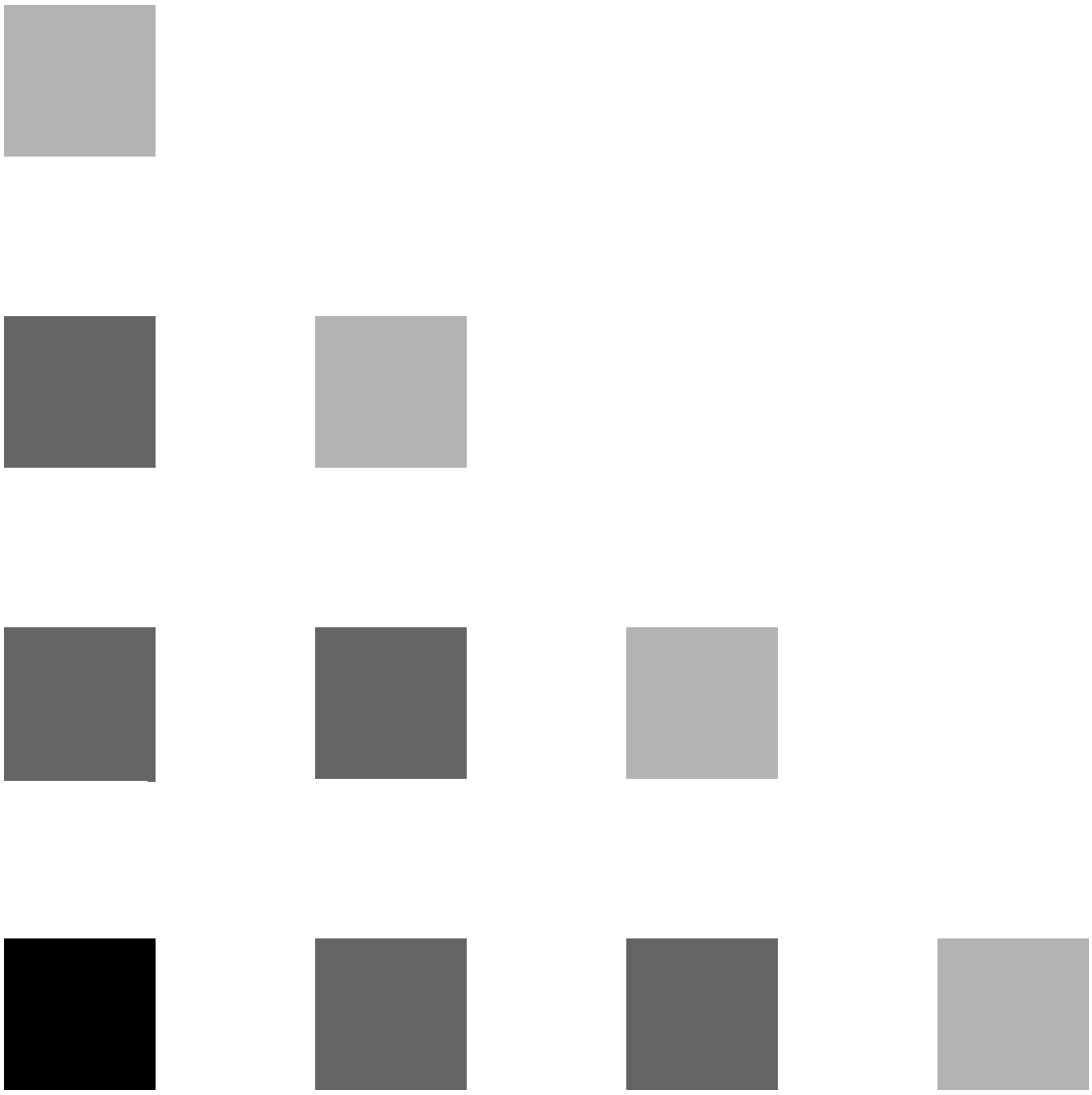
This page intentionally left blank.

# Tab Locator Page

## Remove this page and replace with tab divider.

# Tab Locator Page

## Remove this page and replace with tab divider.



# B PLUS/SLS Refinancing


B.1 Option 1: Refinancing to Secure a Combined Payment ..... 1

B.2 Option 2: Refinancing to Secure a Variable Interest Rate ..... 1

B.3 Option 3: Refinancing by Obtaining a New Loan ..... 2

B.4 Repayment Options on Refinanced Loans ..... 3

This page intentionally left blank.

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 pay a previous loan in full.

If a lender does not offer one or more of the refinancing options described in this appendix, 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 private education 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. [§682.209(d)(1)]

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). [§682.209(d)(3) and (e)(1)]

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. [§682.209(d)(2)]

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 Interest and Special Allowance Request and Report (LaRS report) 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 that was first disbursed prior to July 1, 1987, 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%. [HEA §428B(e)(2) and (3); §682.202(a)(2)(ii) and (3)(ii); §682.209(e) and (f)]

Refinancing under Option 2 does not extend the 10-year maximum repayment period for the loan being refinanced. [§682.209(e)(2)(ii)]

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(d)(2)]

In refinancing loans under Option 2, the guarantor may not charge the borrower a federal default fee (formerly guarantee fee), nor may the lender deduct the fee from the borrower's loan proceeds. 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.
[§682.202(e); §682.209(e)]

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 by Obtaining a New Loan

If a lender holding a fixed-rate PLUS or SLS loan(s) that was first disbursed prior to July 1, 1987, 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 that pays the loan held by the original lender in full. 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.
[HEA §428B(e)(2) and (3); §682.209(f)(1) and (g)]

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).
[§682.209(f)(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.
[§682.209(f)(4)]

▲ Lenders may contact individual guarantors for more information on the applicability of 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 owed 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)]

#### Paying off the Original Loan

Within 5 business days of receiving proceeds from a refinancing lender, the holder of a loan must apply the proceeds to pay in full 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 paid in full.
[§682.209(f)(3)]

The holder of a loan being refinanced also must promptly report to the guarantor of the loan that the 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 Section 10.8 and Subsection 10.6.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 Section 11.23.
[§682.211(i)(5)]

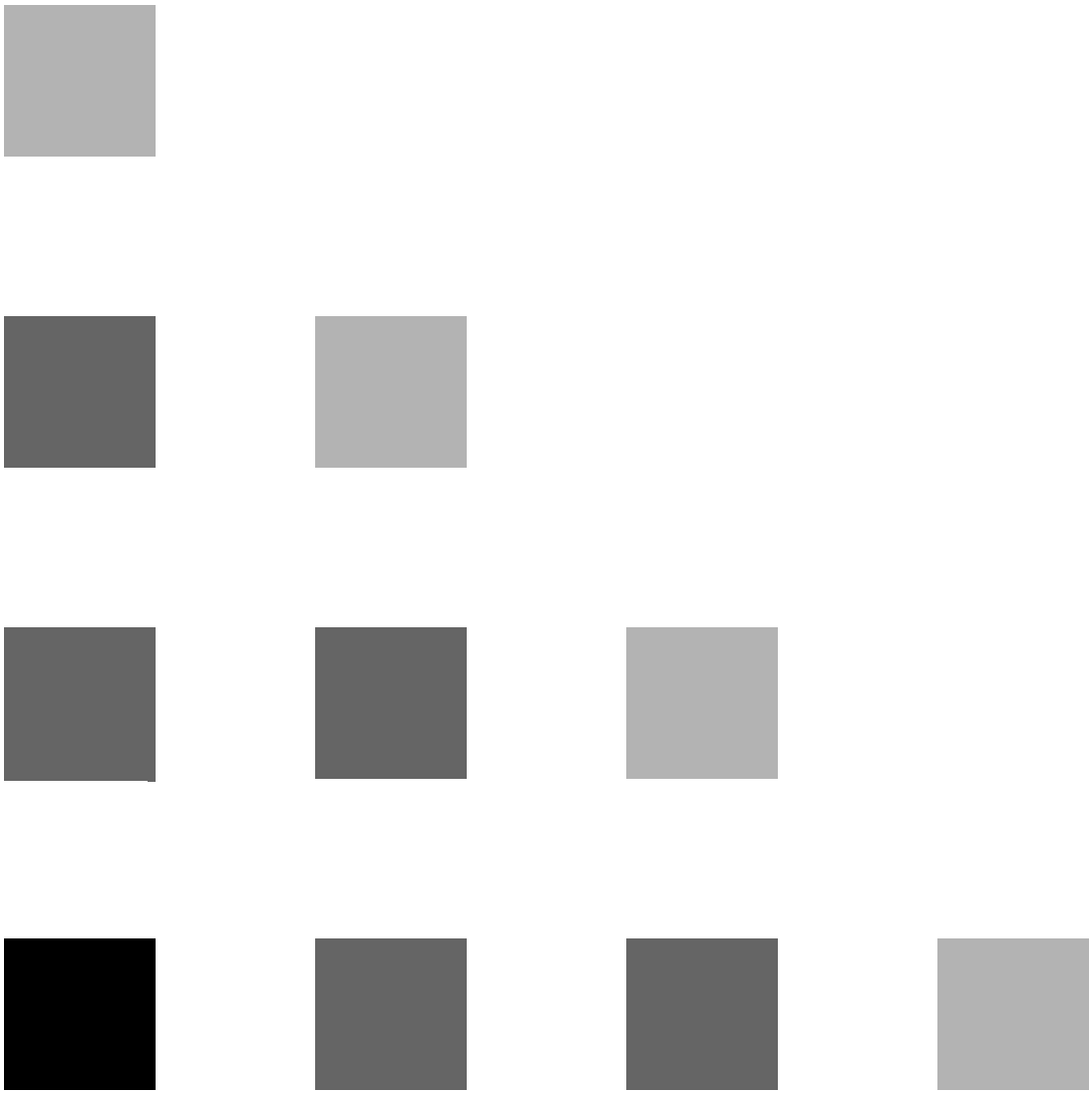
This page intentionally left blank.

# Tab Locator Page

## Remove this page and replace with tab divider.

# Tab Locator Page

## Remove this page and replace with tab divider.



# C Guarantor-Specific Information


**American Student Assistance (ASA)**

2.1.A Overview ..... 1
7.7.I Effect of Bankruptcy on Disbursement ..... 1
13.1.G Additional Documentation Requested by the Guarantor ..... 1

**College Assist**

13.1.A Claim Filing Requirements ..... 1
13.1.D Claim File Documentation ..... 1

**Finance Authority of Maine (FAME)**

12.3.A Bankruptcy Petition Filing ..... 1
13.8.A Bankruptcy ..... 2

**Florida Department of Education, Office of Student Financial Assistance (OSFA)**

13.1.D Claim File Documentation ..... 2
13.4 Requests for Increase in Claim Payment ..... 2
13.6.A Default Claims ..... 2

**Georgia Higher Education Assistance Corporation (GHEAC)**

13.1.D Claim File Documentation ..... 3
15.2 Borrower Eligibility and Underlying Loan Holder Requirements ..... 3

**Illinois Student Assistance Commission (ISAC)**

3.3.A Approval for Participation ..... 3
5.1.A General Borrower and Student Eligibility Requirements ..... 3

**Iowa College Student Aid Commission (ICSAC)**

15.2 Borrower Eligibility and Underlying Loan Holder Requirements ..... 3

**Kentucky Higher Education Assistance Authority (KHEAA)**

13.1.D Claim File Documentation ..... 4

**Louisiana Student Financial Assistance Commission (LASFAC)**

13.1.D Claim File Documentation ..... 4
15.2 Borrower Eligibility and Underlying Loan Holder Requirements ..... 4

**Missouri Department of Higher Education (MDHE) Student Loan Program**

13.8 Discharge ..... 4
14.1 Due Diligence Violations ..... 4
14.5.B Cures for Due Diligence Violations and Gaps ..... 4

**New Hampshire Higher Education Assistance Foundation (NHHEAF)**

3.5.F Reporting Social Security Number, Date of Birth, and First Name Changes or Corrections ..... 5
9.1 Reporting Social Security Number, Date of Birth, and First Name Changes or Corrections ..... 5
13.1.D Claim File Documentation ..... 5
14.5.C Cures for Missing Payment History ..... 5

**New Jersey Higher Education Student Assistance Authority (HESAA)**

13.1.D Claim File Documentation ..... 5

# C Guarantor-Specific Information


**New Mexico Student Loan Guarantee Corporation (NMSLGC)**

13.1.D Claim File Documentation ..... 5

**New York State Higher Education Services Corporation (HESC)**

5.1.A General Borrower and Student Eligibility Requirements ..... 6
9.1 Reporting Social Security Number, Date of Birth, and First Name Changes or Corrections ..... 6
12.4.A Due Diligence Requirements for Loans with Monthly Repayment Obligations ..... 6
12.4.B Due Diligence Requirements for Loans with Repayment Obligations Less Frequent Than Monthly ..... 6

**United Student Aid Funds, Inc. (USA Funds)**

12.3.A Bankruptcy Petition Filing ..... 6


**The following guarantors have no guarantor-specific exceptions to policies outlined in the *Common Manual:***

American Education Services (AES) (Pennsylvania Higher Education Assistance Agency)
Educational Credit Management Corporation (ECMC)
Great Lakes Higher Education Guaranty Corporation
Michigan Higher Education Assistance Authority/Michigan Guaranty Agency
Montana Guaranteed Student Loan Program (MGSLP)
National Student Loan Program (NSLP)
North Carolina State Education Assistance Authority
Oklahoma College Assistance Program
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 (TSAC)
TG
Utah Higher Education Assistance Authority (UHEAA)
Vermont Student Assistance Corporation (VSAC)

## American Student Assistance (ASA)

### 2.1.A
### Overview

From 2001 to 2008, ASA operated under a Voluntary Flexible Agreement with the Department to prevent delinquency and default, and encourage rehabilitation. ASA remains committed, through early and on-going contact, to providing borrowers with the resources and credit strategies they need to make informed consumer decisions throughout the life of their loans.

### 7.7.I
### Effect of Bankruptcy on Disbursement

For loans guaranteed by ASA, 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 ASA of the cancellation.

The lender must also notify the borrower that he or she may reapply for any remaining eligibility. In cases where the MPN is used as a multi-year note, an MPN executed before the bankruptcy action remains valid for future loans. This includes the new loan that replaces any disbursements canceled due to the bankruptcy action. However, the lender may, at its discretion, choose to obtain a new MPN from the borrower.

### 13.1.G
### Additional Documentation Requested by the Guarantor

ASA reserves the right to require a lender to provide any document that ASA determines necessary to verify the accuracy of the information provided by the lender in the claim request, to verify the right of the lender to receive or retain claim payments, to investigate a borrower's dispute or to enforce any right acquired the guarantor or the Department within a time frame required by ASA.

## College Assist

### 13.1.A
### Claim Filing Requirements

College Assist requires that Consolidation loan claims be filed per the loan identifier (creator number), even in those cases in which a single creator number has both subsidized and unsubsidized components.

### 13.1.D
### Claim File Documentation

College Assist reserves the right to request additional documentation in its sole discretion for claims filed, such as proof of disbursement, in order to resolve discrepancies in loan amounts. With respect to claims filed on Consolidation loans, in addition to the claim file documentation specified in Subsection 13.1.D, College Assist requires lender/servicers to include Loan Verification Certificates in each claim file submitted for payment.

## Finance Authority of Maine (FAME)

### 12.3.A
### Bankruptcy Petition Filing

As a result of previous bankruptcy court rulings, a loan holder that fails to suspend collection activities after receiving notification of a bankruptcy filing from a borrower 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, the Authority will allow loan holders to 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.

If the loan holder suspends collection activities upon receiving notification from the borrower, 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 may be considered sufficient for suspending collection activities, a bankruptcy claim may be filed on a loan only after notification from the borrower's attorney or bankruptcy court confirmation of the borrower's filing is obtained. The time filing deadline will be measured from the date the lender receives proof of bankruptcy filing from the attorney or the bankruptcy court (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.

#### 13.8.A
#### Bankruptcy

The Authority requires lenders to file an assignment with the court when the lender files a Proof of Claim (POC) instead of submitting the original assignment in the claim file. A copy of the court-filed assignment must be included in the claim file.

The Authority strongly encourages lenders to file such assignments and POCs electronically with the court when possible. If the lender files electronically with a court, it must provide a copy of the electronically transferred documents in the claim file.

## Florida Department of Education, Office of Student Financial Assistance (OSFA)

#### 13.1.D
#### Claim File Documentation

*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.

*Documents*

Original documents are required unless an indemnification agreement has been signed to permit substitute documentation. For lost or destroyed promissory note(s), lenders must provide affidavit and either copies of the front and back of the loan disbursement check, copy of the school's roster showing the disbursement of funds into the borrower's account or how they applied the funds, or a signed repayment agreement reflect the loan amount and loan period.

In accordance with §682.406(a)(3), OSFA requires lenders to provide an accurate collection history and an accurate payment history with the default claim filed.

In addition to claim file documentation required by this subsection for closed school, fraud, false certification, and unpaid refund claims, OSFA requires the holder to submit complete payment histories, regardless of the lender's claim review status.

For false certification claims based on unauthorized signature, OSFA reserves the right to request copies of the disbursement check bearing the borrower's signature (canceled check) or other proof of disbursement, as deemed appropriate, regardless of the lender's claim review status.

For all claims submitted, OSFA reserves the right to request additional supporting claim documentation as required.

#### 13.4
#### Requests for Increase in Claim Payment

OSFA requires the lender to submit a request for an increase in claim payment within 60 days of receiving the claim payment.

#### 13.6.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 and notify OSFA within 48 hours of the date and amount of the payment and how the payment was posted—i.e., toward fees, interest, principal. If the payment(s) reduced the principal and/or interest claimed, the lender/servicer must complete a corrected Claim Request Form and submit it along with the payment information. OSFA will allow a lender/servicer to fax this information.

## Georgia Higher Education Assistance Corporation (GHEAC)

### 13.1.D
### Claim File Documentation

*Claim Form*

The lender must use the CCI common Claim Form or equivalent electronic format which documents the 270-day collection history data. The data must be accurate and legible.

#### Documents

The Georgia Higher Education Assistance Corporation (GHEAC) reserves the right to request additional supporting documentation (e.g., complete and accurate payment histories, forbearance and deferment forms, copies of disbursement checks or other evidence of disbursement, and detailed collection histories), regardless of the lender's claim review status, as deemed appropriate.

*Cured Claims*

For all cured claims, GHEAC requires the lender to submit an accurate and legible curing instrument, complete and accurate payment histories, forbearance and deferment histories, and detailed collection histories, regardless of the lender's claim review status.

### 15.2
### Borrower Eligibility and Underlying Loan Holder Requirements

*Consolidation Loan Program Eligible Borrower Policy*

GHEAC will guarantee a Consolidation loan provided that at least one underlying loan to be consolidated is guaranteed by GHEAC, except that GHEAC will not guarantee a Consolidation loan for a GHEAC-guaranteed defaulted loan unless:

- The borrower regains Title IV aid eligibility by making six on-time, voluntary, monthly payments.
- All underlying FFELP loans to be consolidated are held by GHEAC.
- All active GHEAC-guaranteed loans are included in the consolidation.

## Illinois Student Assistance Commission (ISAC)

### 3.3.A
### Approval for Participation

#### 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.

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.

### 5.1.A
### General 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.

To access ISAC Administrative Rules, go to www.collegeillinois.org and click the FAAs or Lenders, as appropriate. Click on the e-Library link on the left-hand side and the Rules are item number 3.

## Iowa College Student Aid Commission (ICSAC)

### 15.2
### Borrower Eligibility and Underlying Loan Holder Requirements

Prior to making a Consolidation loan under the ICSAC's guarantee, a lender shall ascertain that none of the underlying loans are in default status. The ICSAC *will* guarantee a Consolidation loan for an applicant who has not previously obtained a loan guaranteed by the ICSAC.

## Kentucky Higher Education Assistance Authority (KHEAA)

**13.1.D**
**Claim File Documentation**

KHEAA reserves the right to request additional supporting documentation, e.g., complete and accurate payment histories, forbearance and deferment forms, copies of disbursement checks or other evidence of disbursement, and detailed collection histories, regardless of the lender's claim review status, as deemed appropriate.

## Louisiana Student Financial Assistance Commission (LASFAC)

## Louisiana Office of Student Financial Assistance (LOSFA)

**13.1.D**
**Claim File Documentation**

In addition to the claim file documentation listed in Subsection 13.1.D, LOSFA requires that the lender submit a complete payment history with each claim. LOSFA reserves the right to request additional supporting documentation as required.

**15.2**
**Borrower Eligibility and Underlying Loan Holder Requirements**

*Consolidating Defaulted Title IV 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 has a defaulted loan which is not to be included in the consolidation, LOSFA will not guarantee the Consolidation loan unless the borrower has regained his Title IV eligibility by making six consecutive, on-time, voluntary, reasonable and affordable, full monthly payments to the holder of the defaulted loan.

LOSFA does not guarantee Consolidation loans for which the lender has agreed to an income-sensitive repayment schedule.

## Missouri Department of Higher Education (MDHE) Student Loan Program

**13.8**
**Discharge**

The MDHE will require a lender to obtain additional documentation to support the borrower's application for loan discharge in cases where the information provided in the initial application is not definitive, is illegible, or is incomplete.

**14.1**
**Due Diligence Violations**

**14.5.B**
**Cures for Due Diligence Violations and Gaps**

To cure the loss of guarantee resulting from due diligence violations or gaps, a lender may accept a full payment received on the borrower's behalf or other curing instrument. The following list clarifies other curing instruments that the MDHE accepts:

- A signed repayment agreement that complies with 34 CFR 682.209(a)(7), or
- A signed document that constitutes both a forbearance agreement and a repayment agreement that complies with 34 CFR 682.209(a)(7). The repayment agreement language in such a document must include the specifics of the borrower's repayment terms. To avoid claim rejection, lenders and servicers are encouraged to request MDHE review before implementing any combination repayment and forbearance agreement format that the lender may wish to use as a curing instrument on an MDHE-guaranteed loan.

## New Hampshire Higher Education Assistance Foundation (NHHEAF)

### 3.5.F
### Reporting Social Security Number, Date of Birth, and First Name Changes or Corrections

#### Acceptable Source Documents for Reporting Social Security Number (SSN) Changes

NHHEAF will not accept the loan application, Master Promissory Note (MPN), or loan certification from a lender as a valid source for reporting a change to a borrower's SSN. NHHEAF will accept all other documents listed as acceptable source documents for reporting SSN changes in Subsection 3.5.F from lenders when reporting an SSN change.

### 9.1
### Reporting Social Security Number, Date of Birth, and First Name Changes or Corrections

#### Acceptable Source Documents for Reporting Social Security Number (SSN) Changes

NHHEAF will not accept the Master Promissory Note (MPN) or loan certification from a school as a valid source for reporting a change to a borrower's SSN. NHHEAF will accept all other documents listed as acceptable source documents for reporting SSN changes in Section 9.1 from schools when reporting an SSN change.

### 13.1.D
### Claim File Documentation

In addition to the required claim file documentation indicated in the *Common Manual* Subsection 13.1.D for all claim filing types, NHHEAF requires the holder to provide, with each claim submittal, the front and back of the promissory note for each loan included in the claim package.

When multiple loans are submitted on one CCI form, holders must also provide a separate sheet that contains a loan-level breakdown (ex: capitalized interest amount, original disbursement amount and current principal and interest amount).

Additionally, NNHEAF reserves the right to request additional supporting documentation e.g., complete and accurate payment histories, forbearance and deferment forms, copies of disbursement checks or other evidence of disbursement, and detailed collection histories, regardless of the lender's claim review status, as deemed appropriate.

#### Consolidation Loan Verification Certificates

With respect to claims filed on Consolidation loans, in addition to the claim file documentation listed in Subsection 13.1.D, NHHEAF requires that the lender include copies of all loan verification certificates that it received from the holders of the underlying loans.

### 14.5.C
### Cures for Missing Payment History

#### Payment History Required

NHHEAF requires each loan package to include a payment history and will not recognize a cure for a missing payment history. NHHEAF will consider reconstructed payment histories on a case-by-case basis, contingent on the logic and procedures used to reconstruct the payment history.

## New Jersey Higher Education Student Assistance Authority (HESAA)

### 13.1.D
### Claim File Documentation

HESAA requires the lender to submit a complete and accurate payment history.

HESAA reserves the right to request additional supporting documentation, e.g. forbearance and deferment forms, copies of disbursement checks or other evidence of disbursement, and detailed collection histories, as deemed appropriate.

## New Mexico Student Loan Guarantee Corporation (NMSLGC)

### 13.1.D
### Claim File Documentation

The New Mexico Student Loan Guarantee Corporation (NMSLGC) reserves the right to request additional supporting documentation, as deemed appropriate, before processing and/or paying a claim.

## New York State Higher Education Services Corporation (HESC)

### 5.1.A
### General 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.

### 9.1
### Reporting Social Security Number, Date of Birth, and First Name Changes or Corrections

HESC will not accept a W2 as acceptable documentation for verifying a SSN.

### 12.4.A
### Due Diligence Requirements for Loans with Monthly Repayment Obligations

### 12.4.B
### Due Diligence Requirements for Loans with Repayment Obligations Less Frequent Than Monthly

*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 270th day of delinquency in editing required telephone due diligence activities.

## United Student Aid Funds, Inc. (USA Funds)

### 12.3.A
### Bankruptcy Petition Filing

As a result of previous bankruptcy court rulings, a loan holder that fails to suspend collection activities after receiving notification of a bankruptcy filing from a borrower 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, USA Funds will allow loan holders to 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.

If the loan holder suspends collection activities upon receiving notification from the borrower, 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 may be considered sufficient for suspending collection activities, a bankruptcy claim may be filed on a loan only after notification from the borrower's attorney or bankruptcy court confirmation of the borrower's filing is obtained. The timely filing deadline will be measured from the date the lender receives proof of bankruptcy filing from the attorney or the bankruptcy court (rather than the date the original unofficial notification is received).

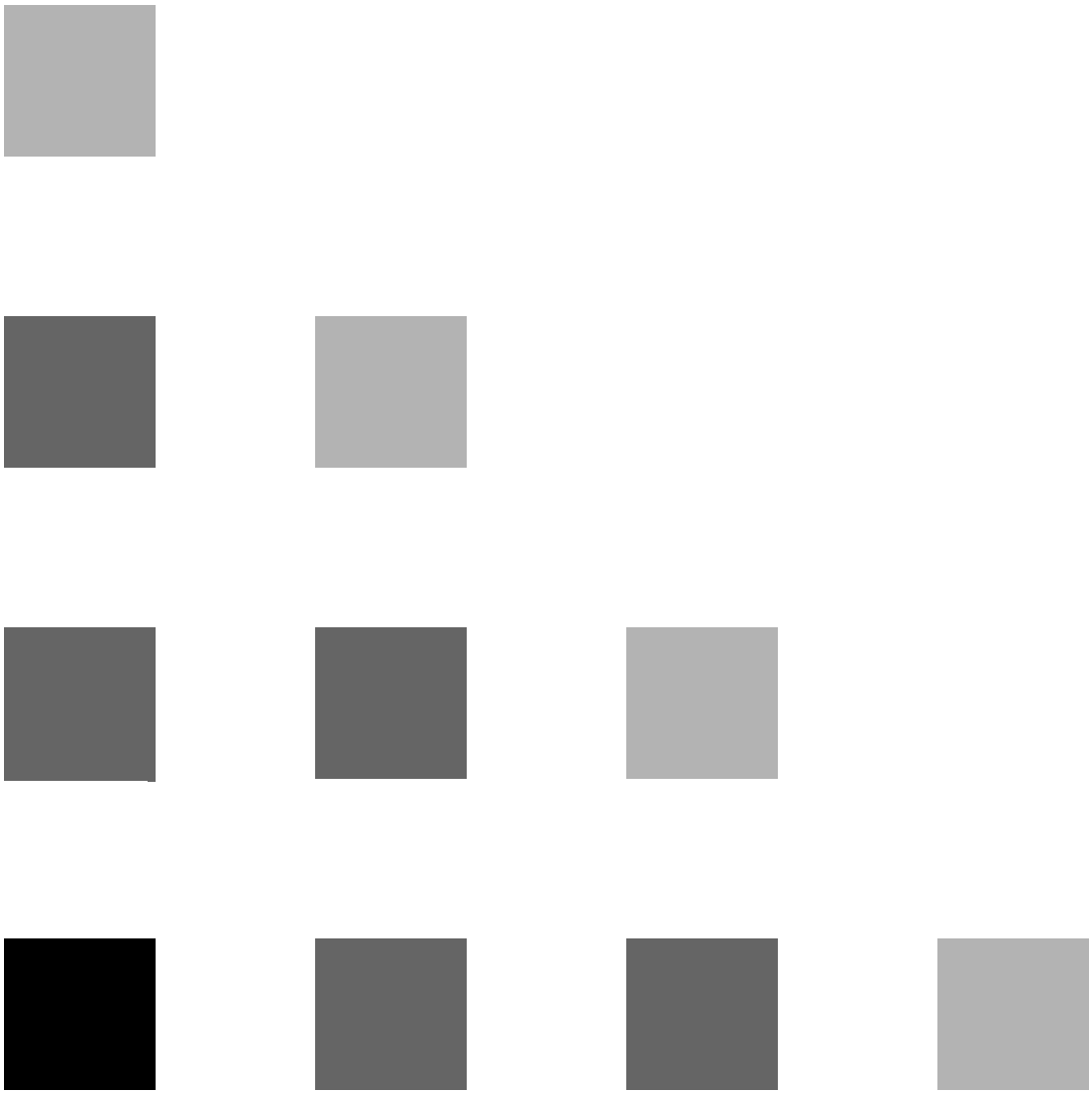
If the loan holder is unable to obtain court confirmation of the bankruptcy filing within a reasonable period of time (preferably within 45 days), it must resume servicing on the loan at the point of delinquency, if any, that existed at the time the collection activities were suspended. A lender may capitalize the interest that accrues during the period when collection activities were suspended only if it obtains written authorization from the borrower.

# Tab Locator Page

## Remove this page and replace with tab divider.

# Tab Locator Page

## Remove this page and replace with tab divider.



# D U.S. Department of Education Contact Information


D.1 School Participation Teams ..... 1

D.2 Financial Partners Portal ..... 1

D.3 Federal Student Aid Information Center ..... 2

D.4 Federal Student Aid Research and Customer Call Center ..... 2

D.5 Federal Student Aid's Chief Financial Officer, Accounting Division ..... 2

D.6 National Student Loan Data System (NSLDS) Customer Service Center ..... 2

D.7 Default Prevention and Management Division ..... 2

D.8 FSA Ombudsman ..... 2

D.9 Other Department Contact Information ..... 3

This page intentionally left blank.

## D.1
## School Participation Teams

**School Participation Teams** — **Figure D-1**

| | | |
|---|---|---|
| Foreign School Team | | Washington, D.C. (202) 377-3168 |
| New York/Boston | Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont, New Jersey, New York, Puerto Rico, Virgin Islands | Boston (617) 289-0133<br>New York (646) 428-3750<br>Washington, D.C. (202) 377-3173 |
| Philadelphia | Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, West Virginia | Philadelphia (215) 656-6442<br>Washington, D.C. (202) 377-3173 |
| Atlanta | Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina | Atlanta (404) 974-9303<br>Washington, D.C. (202) 377-3173 |
| Chicago | Illinois, Indiana, Minnesota, Ohio, Wisconsin | Chicago (312) 730-1515<br>Washington, D.C. (202) 377-3173 |
| Dallas | Arkansas, Louisiana, New Mexico, Oklahoma, Texas | Dallas (214) 661-9490<br>Washington, D.C. (202) 377-3173 |
| Kansas City | Iowa, Kansas, Kentucky, Missouri, Nebraska, Tennessee | Kansas City (816) 268-0410<br>Washington, D.C. (202) 377-3173 |
| Denver | Colorado, Michigan, Montana, North Dakota, South Dakota, Utah, Wyoming | Denver (303) 844-3677<br>Washington, D.C. (202) 377-3173 |
| San Francisco/Seattle | Alaska, Arizona, California, Hawaii, Idaho, Nevada, Oregon, Washington, American Samoa, Guam, Marshall Islands, Northern Marianas, State of Micronesia, Palau | San Francisco (415) 486-5677<br>Seattle (206) 615-2594<br>Washington, D.C. (202) 377-3173 |

For more information about School Participation Teams, refer to http://www.ifap.ed.gov/ifap/helpContactInformationDetailedList.jsp?contactname=School%20Participation%20Teams.

## D.2
## Financial Partners Portal

**Financial Partners Portal** — **Figure D-2**

| | | | |
|---|---|---|---|
| Eastern Region | Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont, Virginia, West Virginia, Puerto Rico, Virgin Islands | (646) 428-3770 | U. S. Department of Education<br>Financial Partner Services Eastern Region<br>Financial Square<br>32 Old Slip 25th Floor<br>New York, NY 10005-3543 |
| Northern Region | Alaska, Arizona, California, Colorado, Hawaii, Idaho, Illinois, Indiana, Michigan, Minnesota, Montana, Nevada, North Dakota, Ohio, Oregon, South Dakota, Utah, Washington, Wisconsin, Wyoming, American Samoa, Northern Marianas, Micronesia, Guam, Palau | (312) 730-1500 | U. S. Department of Education<br>Financial Partner Services Northern Region<br>500 West Madison Street, Suite 1551<br>Chicago, IL 60661 |
| Southern Region | Alabama, Arkansas, Florida, Georgia, Iowa, Kansas, Kentucky, Louisiana, Mississippi, Missouri, Nebraska, New Mexico, North Carolina, Oklahoma, South Carolina, Tennessee, Texas | (214) 661-9520 | U. S. Department of Education<br>Financial Partner Services Southern Region<br>Harwood Center, Suite 1540<br>1999 Bryan Street<br>Dallas, TX 75201 |

Information taken from www.fp.ed.gov/contacts.html.

## D.3
## Federal Student Aid Information Center

Students, parents, and Federal Student Aid program participants may call the Federal Student Aid Information Center at (800) 4-FED-AID or send an e-mail message to FederalStudentAidCustomerService@ed.gov to obtain:

- General assistance pertaining to federal student aid.
- FAFSA status information.
- Duplicate Student Aid Reports (SARs).

The Federal Student Aid Students Portal Website is located at www.studentaid.ed.gov. The FAFSA on the Web is located at www.fafsa.gov.

## D.4
## Federal Student Aid Research and Customer Call Center

Federal Student Aid program participants may call the Federal Student Aid Research and Customer Call Center at (800) 433-7327 for assistance regarding Federal Student Aid programs and the Information for Financial Aid Professionals (IFAP) Website. Program participants may also call this number for information on or relating to:

- Laws and regulations.
- *Dear Colleague Letters*/*Dear Partner Letters*.
- Online references.
- Policy guidance.
- Department of Education publications (current and archived).
- Tools for schools.
- Worksheets, schedules, and tables.

The IFAP Website is located at www.ifap.ed.gov.

## D.5
## Federal Student Aid's Chief Financial Officer, Accounting Division

Program participants may call (202) 377-3324 to obtain:

- T-bill rates for the current quarter.
- T-bill rates for the most recent four quarters.
- Lender Bulletin copies.
- Current PLUS and SLS loan variable interest rates.
- Current Stafford loan variable interest rates.
- Assistance from a FFELP specialist.

## D.6
## National Student Loan Data System (NSLDS) Customer Service Center

Program participants may call (800) 999-8219 or send an e-mail message to nslds@pearson.com to obtain information relating to the NSLDS Enrollment Reporting process. The NSLDS financial aid professionals Website is located at www.nsldsfap.ed.gov.

## D.7
## Default Prevention and Management Division

Questions about cohort default rate appeals and general cohort default rate issues should be directed to the Default Prevention and Management Division at (202) 377-4259 or by e-mail at fsa.schools.default.management@ed.gov.

The Default Prevention and Management Division Website is located at www.ifap.ed.gov/DefaultManagement/DefaultManagement.html.

## D.8
## FSA Ombudsman

Borrowers of FFELP, FDLP, and Perkins loans may call the Federal Student Aid (FSA) Ombudsman to informally resolve loan disputes and problems. The Ombudsman Customer Service Line is (877) 557-2575; the Ombudsman e-mail address is fsaombudsmanoffice@ed.gov.

*U.S. Postal Service Delivery & All Other Deliveries (express mail, courier, etc.)*

U.S. Department of Education
Attn: FSA Ombudsman
830 First Street, N.E.
Fourth Floor
Washington, DC 20202-5144

The FSA Ombudsman Website is located at www.ombudsman.ed.gov.

# D.9
# Other Department Contact Information

### Conditional Disability Discharge Unit

Borrowers who have applied for a total and permanent disability discharge and whose loans have been assigned to the Department of Education during the 3-year conditional period may need to check on the status of their loans. These borrowers may call the Conditional Disability Discharge Unit at (888) 303-7818 send an email message to disabilityinformation@nelnet.net.

The address for assignments to the Conditional Disability Discharge Unit is:

U.S. Department of Education
Conditional Disability Discharge
P.O. Box 173904
Denver, CO 80217

### eZ Audit (for Schools)

The Department's eZ-Audit provides schools with a paperless single point of submission for financial statements and compliance audits through the Internet (for more information about eZ-Audit, see Subsection 4.3.A).

Telephone number: (877) 263-0780
E-mail address to eZ-Audit Help Desk: fsaezaudit@ed.gov
Website: www.ezaudit.ed.gov

### Submission of FFELP Compliance Audits (for Lenders and Servicers)

The Department provides lenders and servicers with the following addresses for the submission of financial statements and compliance audits (for more information about compliance audits, see Subsection 3.8.A).

*Express Mail US*

U.S. Department of Education
FSA/Program Compliance
830 First St., N.E.
Attn: FPEO
Room 73-A-5
Washington, DC 20002-5402

*Postal Service*

U.S. Department of Education
FSA/Program Compliance
830 First St., N.E.
Attn: FPEO
Room 71-I-1
Washington, DC 20002-5402

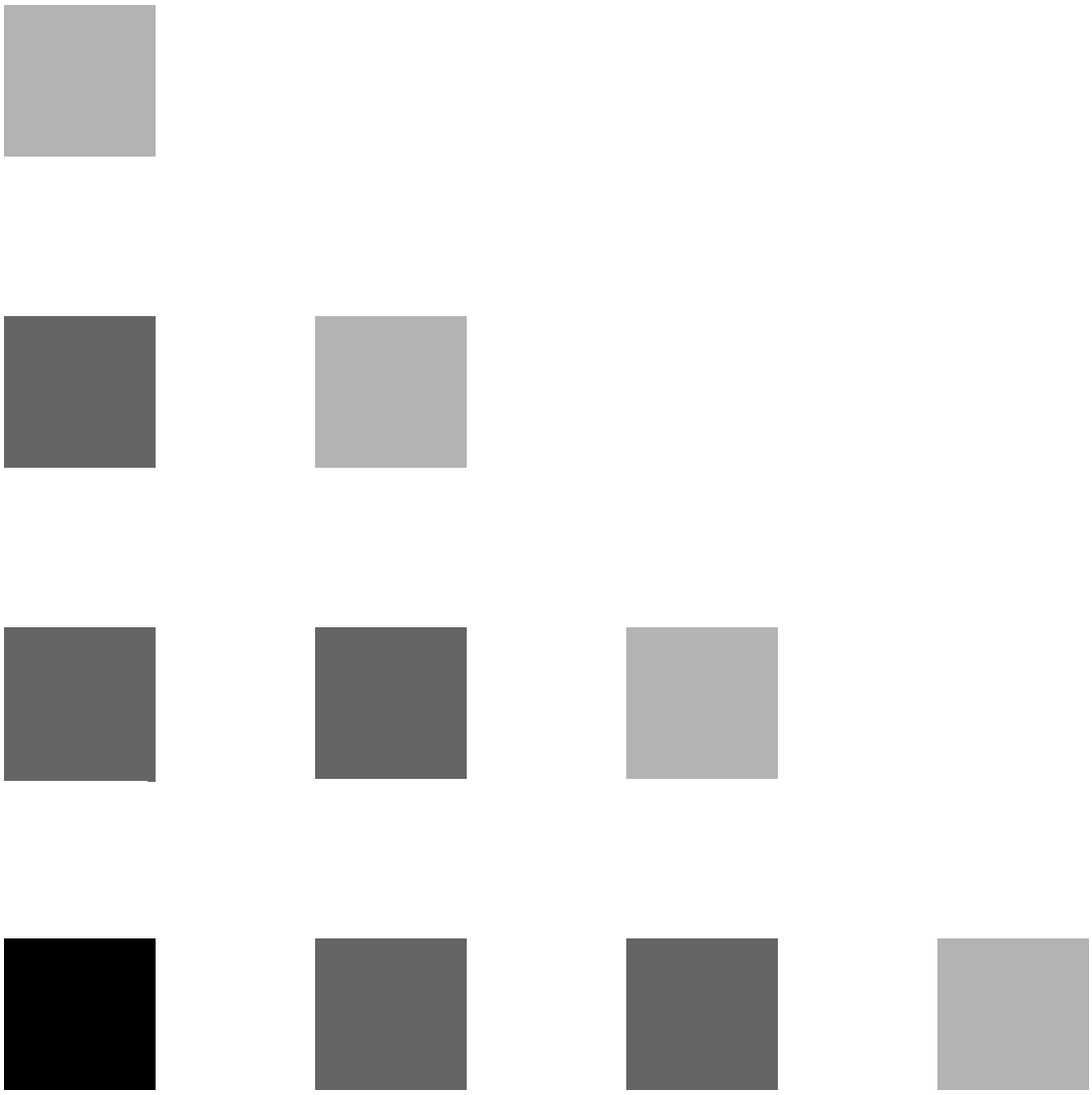
This page intentionally left blank.

# Tab Locator Page

## Remove this page and replace with tab divider.

# Tab Locator Page

## Remove this page and replace with tab divider.



# E Guarantor Bulletins

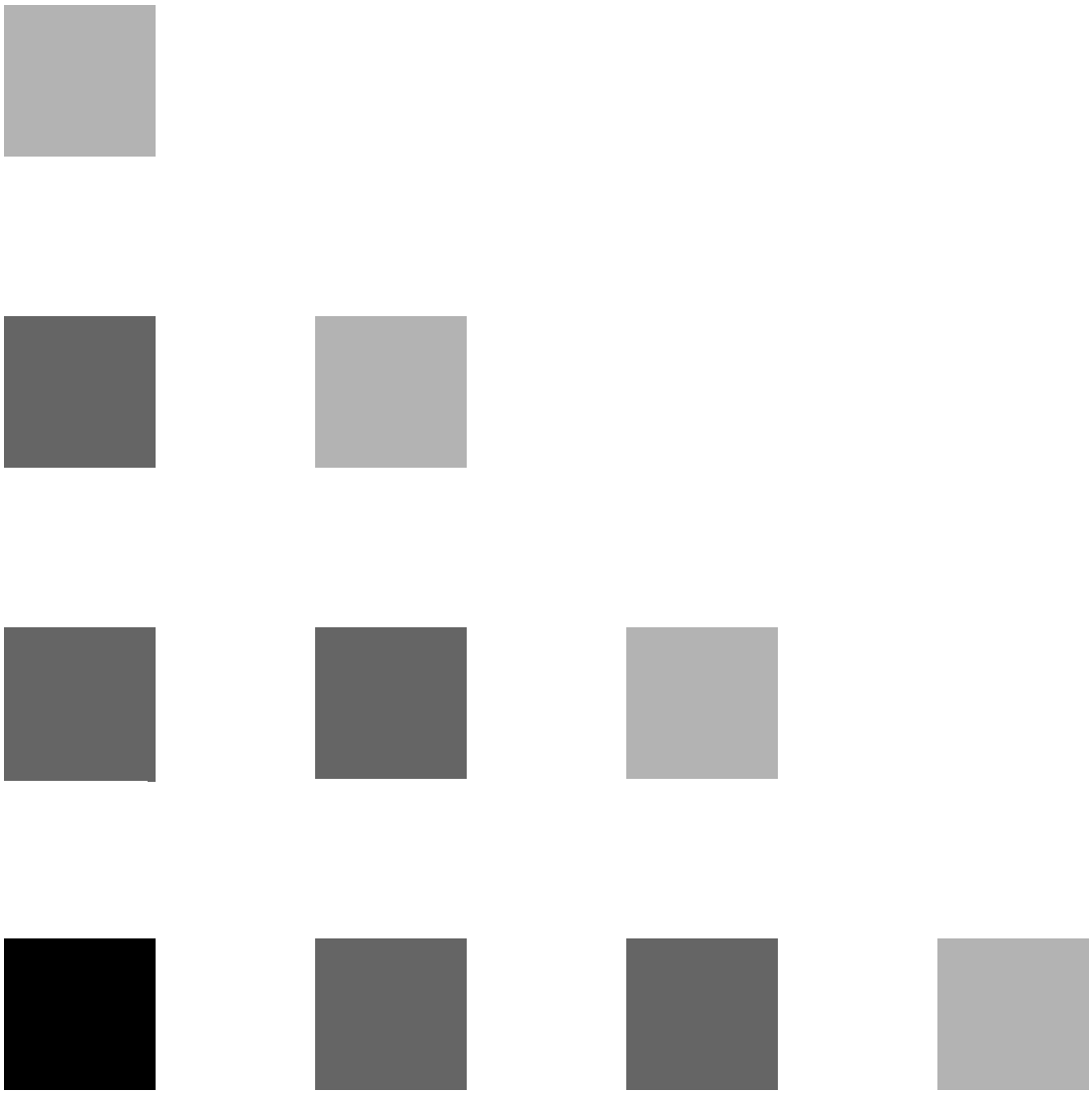
This page intentionally left blank.

# Tab Locator Page

## Remove this page and replace with tab divider.

# Tab Locator Page

## Remove this page and replace with tab divider.



# F FFELP Community Initiatives

College Access Initiative ..... 1
Common Account Maintenance (CAM) ..... 1
Common Image Transport Specification ..... 2
CommonLine 4.0 and 5.0 ..... 2
Common Record: CommonLine ..... 2
Data Transport Standard (DTS) ..... 3
Mapping Your Future®, Inc. ..... 3
NCHELP Program Operations Committee ..... 3
NCHELP Program Regulations Committee ..... 4
Ombudsman Caucus ..... 4

This page intentionally left blank.

## College Access Initiative

The College Access Initiative, signed into law in February 2006 as a part of the Higher Education Reconciliation Act, formalizes a foundational role of guarantors in promoting access to postsecondary education and requires that they develop a comprehensive listing of the postsecondary education opportunities, programs, publications, and other services available in their designated states.

As part of their public service mission, guarantors provide an extensive range of services and programs to increase awareness of the importance of postsecondary education, the opportunities available, and the financial support offered. They make efforts to reach students and families at every stage of their education life-cycle—from programs designed for elementary school students to tools aimed at workers seeking new skills. All of these activities form the foundation of the College Access Initiative. A workgroup of guarantor representatives meets regularly to develop implementation plans to fulfill the Initiative's two main requirements: promoting access and providing a comprehensive listing of available services.

### Promoting Access

The Initiative requires that guarantors undertake activities to promote access to postsecondary education for students through providing information on college planning, career planning, and paying for college, and to coordinate with other entities committed to similar goals. Guarantors currently reach out to millions of students and families through a variety of channels—including brochures and newsletters, financial aid workshops and hotlines, comprehensive Websites, and resource centers—to inform them about how to prepare for college, plan for a career, pay for postsecondary education, and manage finances. These free resources are used by schools, organizations, and families throughout the country to boost awareness and early intervention efforts. Guarantors are also actively involved in federal, state, and local programs including TRIO, GEAR UP, FAFSA completion events, and financial aid training.

The guarantor workgroup helps agencies to expand their outreach activities and reach a broader number of students, families, and organizations. Guarantors are sharing information about best practices and effective programs through meetings, workshops, and conference call forums. They are also sharing resources about the technical assistance available in starting programs, the potential college access partners in their states, and the federal and non-federal programs that are operating throughout the country that may be seeking partners and supporters. In addition, they are working with national access organizations including the National College Access Network, the Pathways to College Network, and the Council for Opportunity in Education, to help support national and state initiatives and leverage existing resources.

### Development of a Comprehensive State Listing

The guarantors have worked together to create a new Website—www.going2college.org—that features comprehensive information on career planning, college planning, and paying for college. The site, developed in conjunction with Mapping Your Future®, provides a central location for students, families, and educators to learn about every stage in the college planning process and includes links to relevant Websites and a comprehensive listing of postsecondary education opportunities, programs, publications, and other services available in their state. The site includes detailed information about the academic, emotional, and financial support available through mentoring and tutoring programs in the state, college access resource centers, college and financial aid awareness events, and state and federal financial aid. To expand the number of access programs on the site, particularly those geared toward low-income and first-generation students, guarantors have been reaching out to state partners for information that can be included on the site. The Website is an ongoing project that guarantors will be updating regularly.

## Common Account Maintenance (CAM)

Common Account Maintenance (CAM) is the FFELP industry standard created for service providers to exchange information updates on borrower and loan record. The transactions defined within CAM fall into three categories: General Account Maintenance (with 21 transactions), Default Aversion (with 5 transactions), and Claim Processing (with 12 transactions). These are in broad use among service providers, but have not yet been universally adopted.

CAM is owned by the National Council of Higher Education Loan Programs (NCHELP) Electronic Standards Committee (ESC), specifically the ESC General Account Maintenance Advisory Team (GAMAT) and the ESC Default Aversion and Claims Advisory Team (DACAT).

Primary participants in the ongoing maintenance of the Common Account Maintenance standard are the members of the ESC and the listed Advisory Teams.

For more information about CAM, go to www.nchelp.org, then click on NCHELP Committees, then click on Electronic Standards Committee, then look for and click on the CAM references.

## Common Image Transport Specification

Common Image Transport Specification is a new proposed specification for the electronic transfer of imaged documents. This Extensible Markup Language (XML)- and Tagged Image File Format (TIFF)-based specification has been developed by the National Council of Higher Education Loan Programs (NCHELP) Electronic Standards Committee (ESC) and is awaiting approval. This will provide best practice guidelines to be used for the electronic exchange of imaged documents within the higher education community.

Oversight of the Common Image Transport Specification is performed by the NCHELP ESC, specifically, the ESC Default Aversion and Claims Advisory Team (DACAT) and the ESC Electronic Exchange Advisory Team (EEAT).

Primary participants in the ongoing maintenance of the Common Image Transport Specification are the members of the NCHELP ESC and the listed Advisory Teams.

## CommonLine 4.0 and 5.0

CommonLine standardizes electronic loan certification formats, response files, disbursements, change transactions, and error messages.

The goal of CommonLine is to simplify the loan origination, disbursement, and change 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.

The Origination Standards Advisory Team data exchange standards have been adopted by virtually all participants in the FFELP community for support of the delivery of FFELP and alternative loans. The entire FFELP industry has standardized origination processing around these specifications.

CommonLine is owned by the National Council of Higher Education Loan Programs (NCHELP) Electronic Standards Committee (ESC), specifically the Origination Standards Advisory Team.

Primary participants in the ongoing maintenance of the CommonLine standard are the members of the NCHELP ESC and the listed Advisory Team. For more information on CommonLine, go to www.nchelp.org, click on Committees, then click on Electronic Standards Committee. For more information on CommonLine Release 4.0, go to www.nchelp.org/elibrary/index.cfm?parent=321.

For more information on CommonLine Release 5.0, go to www.nchelp.org/elibrary/index.cfm?parent=323.

## Common Record: CommonLine

Common Record: CommonLine (CRC) is the Extensible Markup Language (XML)-based Origination and Disbursement and Change data exchange standard that has been patterned after and follows the concepts offered in the Common Record for Common Origination and Disbursement (COD), developed by the Department of Education's office of Federal Student Aid (FSA). CRC supports all of the same functionality as CommonLine Release 5.0, but adds the flexibility and clarity offered by the use of XML. It will support both batch and real-time data transmission.

CRC is owned by the National Council of Higher Education Loan Programs (NCHELP) Electronic Standards Committee (ESC), specifically the ESC Origination Standards Advisory Team.

Primary participants in the ongoing maintenance of the CRC standard are the members of the NCHELP ESC and the listed Advisory Team, as well as FSA, the Postsecondary Electronic Standards Council (PESC), and financial aid management systems (FAMS) vendors.

For more information on CRC, go to www.nchelp.org, click on e-Library, then Electronic Standards Documentation and Tools, and then CommonRecord: CommonLine Documentation.

## Data Transport Standard (DTS)

The Data Transport Standard (DTS) concept was initiated by the Electronic Standards Council (ESC) and presented and adopted by the Postsecondary Electronic Standards Council (PESC) to create a standard method to exchange data within the higher education arena, regardless of the business process. It is an industry effort to be proactive and develop an open standard that can meet the needs of multiple business sectors within the industry, since all participants share common points of interaction, namely schools and financial aid management system (FAMS) vendors. The DTS was created to share a common solution for data transport. It is a recommended replacement for POP3/SMTP (e-mail), an industry-wide solution for real-time or immediate requests; supports batch (deferred) requests; and offers a single solution to transport data.

Web services are based on request-response patterns. These request-response behavioral patterns occur in a synchronous (uninterrupted) mode. Thus, the DTS provides assured delivery of data for both immediate (real-time) and deferred (batch) data requests.

DTS version 2.0 was approved on November 1, 2007, as a PESC-approved standard and is in process of being implemented across the U.S. and Canada. All materials and information related to DTS can be found on the PESC Website at: http://www.pesc.org/interior.php?page_id=165.

Primary DTS participants are members from the FAMS, the National Council of Higher Education Loan Programs (NCHELP), the Department of Education's office of Federal Student Aid (FSA), ELM Resources, the American Association of Collegiate Registrars and Admissions Officers (AACRAO), and other learning management organizations. The DTS project consists of two workgroups, business and technical. Information and documentation for DTS is available at www.pesc.org and www.nchelp.org.

## Mapping Your Future®, Inc.

Mapping Your Future's mission is to enable individuals to achieve life-long success by empowering students, families, and schools with free, web-based career, college, financial aid, and financial literacy information and services. These services include the following: Online Student Loan Counseling, Show Me the Future®, CareerShip®, deferment navigator, budget calculator, debt/salary wizard, income-based repayment calculator, student loan consolidation calculator, and other money management tools.

Sponsored by guarantors and supported by lenders and servicers, Mapping Your Future is a national collaborative, public-service organization of the financial aid industry-bringing together the expertise of the industry. Mapping Your Future has a full-time staff to develop and maintain the services at the direction of the Board of Directors and Steering Committee (representatives of guarantors) and with advice and assistance from volunteer team members across the country. Team members include the staff at sponsoring agencies and supporting organizations, as well as college financial aid professionals and high school counselors.

For more information about Mapping Your Future, go to www.mappingyourfuture.org.

## NCHELP Program Operations Committee

The National Council of Higher Education Loan Programs (NCHELP) Program Operations Committee monitors and responds to issues that involve and impact loan operations and related federal reporting. The committee serves as a clearinghouse for information and coordinates the development of common and simplified forms, procedures, and policies between guarantors, lenders/servicers, secondary markets, and other participants. Of particular interest to the Program Operations Committee is using emerging technology to improve enhanced services and gain efficiencies within the student loan industry.

The co-chairs of the Program Operations Committee plan and organize the activities of the committee, including meetings, and the dissemination of minutes, information, and assignments. They also track the progress of all committee activities and support and work closely with other NCHELP Committee chairs.

Members of the Program Operations Committee are nominated by their respective NCHELP member agency to serve one-year terms. Terms generally run from July 1 to June 30. Once NCHELP accepts a nomination, the member is added to the Program Operations listserv and is given access to the Committee's SharePoint site. Program Operations is a working committee and committee members are expected to participate on at least one subcommittee as well as volunteer for various assignments. Additionally, the committee relies extensively on the participation of individuals outside of the official committee membership who actively participate on a variety of subcommittees and workgroups such as the Forms and the Default Aversion and Claims Standardization subcommittee (DACS).

For more information on the NCHELP Program Operations Committee, go to www.nchelp.org/pages/page.cfm?id=47.

## NCHELP Program Regulations Committee

The National Council of Higher Education Loan Programs (NCHELP) Program Regulations Committee is responsible for all activity in the regulatory arena, including developing NCHELP responses to Notices of Proposed Rulemaking, to *Common Manual* proposals, and to sub-regulatory positions of the Department of Education. The committee develops extensive analytical materials related to student loan regulations and legislation for dissemination to NCHELP members and other interested parties; further, the committee provides training modules and other resource tools for NCHELP members to use. The committee also assists the other NCHELP committees with regulatory and statutory interpretations and engages in other activities, such as commenting on federal forms.

The chairs of the Program Regulations Committee plan and organize meetings and activities of the committee, as well as disseminate minutes, information, and assignments. They also track the progress of all committee activities, and support and work closely with other NCHELP committee chairs.

Members of the Program Regulations Committee are nominated by their respective NCHELP member agency to serve one-year terms. Terms generally run from July 1 to June 30. Once NCHELP accepts a nomination, the member is added to the Program Regulations listserv and given access to the committee's SharePoint site. Program Regulations is a working committee and committee members are expected to participate on at least one subcommittee as well as volunteer for various assignments.

The Program Regulations Committee also has a number of supporters and friends of the committee who have specific expertise or who may not be able to serve as full members of the committee. These individuals are also on the Program Regulations listserv and assist with committee assignments.

For more information on the Program Regulations Committee, go to www.nchelp.org/pages/page.cfm?id=48.

## Ombudsman Caucus

The Student Loan Ombudsman Caucus was established through the National Council of Higher Education Loan Programs (NCHELP) board in September 2006. The Caucus consists of the contacts identified in the Department of Education's Federal Student Aid (FSA) Ombudsman directory. The vision of the Caucus is to provide a resource for the creation and support of highly effective student aid problem resolution methodologies, techniques, and processes that promote equitable services for all FSA participants. The mission of the Caucus is to provide training and mentoring; identify and report on trends to support positive change through industry best practices and legislation; and to serve as a voice of fair process throughout the student loan life cycle.

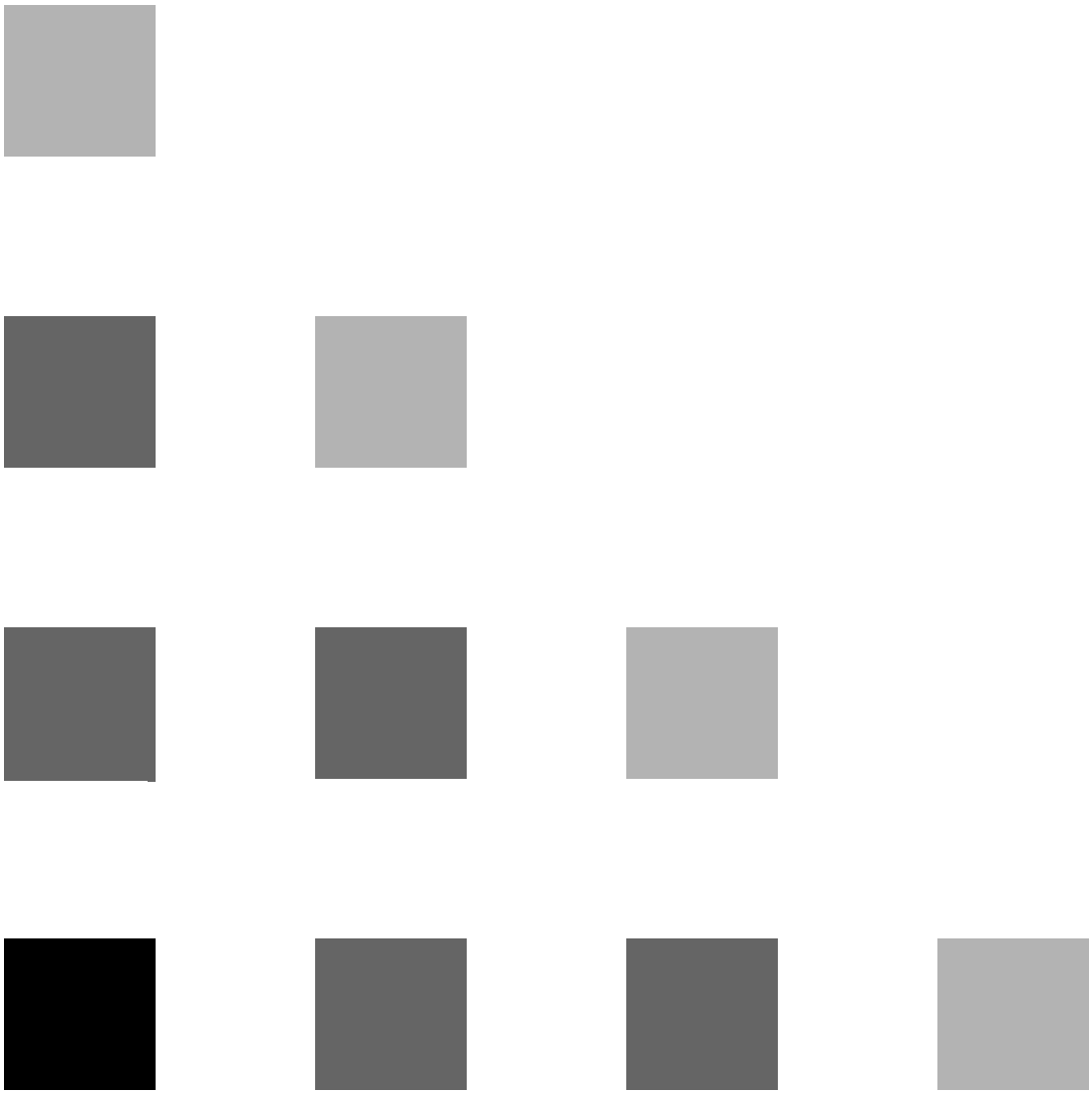
Members of the Caucus can participate in meetings and conference calls throughout the year, as well as share information through a listserv and member Website.

# Tab Locator Page

## Remove this page and replace with tab divider.

# Tab Locator Page

## Remove this page and replace with tab divider.



# G Glossary

This page intentionally left blank.

## A

**Academic Period:** A measured period of enrollment (e.g., a semester, trimester, quarter, or clock hours).

**Academic Year:** For the purposes of determining a borrower's Title IV aid eligibility, a period during which an undergraduate, full-time student is expected to complete either of the following:

- At least 30 weeks of instructional time and 24 semester or trimester hours, or 36 quarter hours in an educational program that measures program length in credit hours.

- At least 26 weeks of instructional time and 900 clock hours in an educational program that measures program length in clock hours.

Upon written request from a school, the Department may reduce the minimum number of weeks in an academic year to between 26 and 29 weeks of instructional time for a credit-hour program that leads to an associate degree or a bachelor's degree.

For a graduate or professional program, an academic year is a period of at least 30 weeks of instructional time. There is no statutory minimum number of hours that a student must complete within the academic year for a graduate or professional program.

**Accredited School:** 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 School.)

**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 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 qualified to accredit schools in a particular category, the Secretary of Education will 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 the Title IV programs and to determine whether an individual school meets those standards.

**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 amount of a student's eligibility for an unsubsidized Stafford loan that is in addition to the student's base Stafford loan eligibility. See Subsection 6.11.A and Figure 6-4 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 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 Section 11.21.

**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.

**Agent:** An officer or employee of a school or an institution-affiliated organization. This definition is applicable to the disclosure and reporting requirements for schools, institution-affiliated organizations, and lenders that issue, recommend, promote, endorse, or provide information relating to FFELP and private education loans. See Subsections 4.4.A and 4.4.E.
[§601.2(b) definition of *agent*]

**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, payments to comply with the requirements for the return of Title IV funds, 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 6.11.B.

**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 (ALAS)

**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 Stafford loan amount a student may borrow for each academic year of study.

**Anticipated 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 of 1965, as amended) 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 Section 7.4, and Appendix A.

**Assignment:** Language placed on or attached to the promissory note indicating a change or transfer of loan ownership.

**Assignment of a Loan:** Any change in the ownership interest of a loan, including a pledge of such an ownership interest as security.

**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 from July 1 of a given calendar year to June 30 of the following calendar year.

## B

**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 under the U.S. Code 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 a student borrower and is most often used by a financially troubled business.

- **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 an individual with regular incomes to satisfy his or her 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 Subsection 6.11.A for more information and examples.

**Base Year:** For need analysis purposes, the calendar year preceding the award year.

**BBAY (and BBAY1, BBAY2, BBAY3):** See Borrower-Based Academic Year (BBAY)

**Borrower:** An individual to whom a FFELP loan is made. See Chapters 5 and 15 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 student's attendance and progress of a student, or a group of students, in a program of study for the purpose of determining Stafford annual loan limit frequency. There are three different types of BBAY, as follows:

- BBAY1: This type of BBAY may be used as an alternative to a scheduled academic year (SAY) for either of the following program types, provided the program is offered in a traditional academic year calendar, i.e., a fixed period of time that generally begins and ends at about the same time each calendar year:

  - A standard term-based credit-hour program.

  - A credit-hour program with nonstandard terms that are substantially equal *and* at least nine weeks of instructional time in length (SE9W). Nonstandard terms are considered substantially equal in length if no term in the loan period is more than two weeks of instructional time longer than any other term in the loan period.

  BBAY1 must include the same number of consecutive terms as in the program's SAY, excluding a summer term the school designates as a "header" or "trailer" to the SAY. A BBAY that is used as an alternative to a program with an SAY and that includes a summer term may include fewer than 30 weeks of instructional time or fewer credit hours than the minimum number required for an SAY.

- BBAY2: This type of BBAY must be used for a standard term-based credit-hour program or a credit-hour program with nonstandard terms that are SE9W that is not offered in a traditional academic year calendar (i.e., one that corresponds to an SAY). BBAY2 must always include enough consecutive terms to meet the program's Title IV academic year requirements for credit hours and weeks of instructional time.

- BBAY3: This type of BBAY must be used for a clock-hour program, a non-term-based credit-hour program, and a credit-hour program with nonstandard terms that are *not* SE9W, (i.e., the terms are not substantially equal, or each term is not at least nine weeks of instructional time in length). BBAY3 must also be used for a credit-hour program with a combination of standard and nonstandard terms that does not qualify to use an SAY. BBAY3 begins when the student enrolls and does not end until the student successfully completes (i.e., passes) the clock or credit hours and completes the instructional weeks in the program's Title IV academic year.

For additional information, see Subsection 6.1.B, Figure 6-2, and the 08-09 FSA Handbook, Volume 3, Chapter 5, p. 3-78 to 3-85 and p. 3-94.

**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 from and independent of the main campus; 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 Title IV eligibility for each of its locations. See Subsections 4.1.A and 4.1.C.

## C

**Campus-Based Programs:** The Federal Perkins Loan, Federal Work-Study, and Federal Supplemental Educational Opportunity Grant programs. These programs and their related funds are administered directly by a school's financial aid office. In return, the school is allowed to retain a percentage of each program's funds for its administrative costs. The budgets for these programs are limited by the annual federal appropriation awarded to each school; matching funds from the school; and, for the Perkins program, the school's revolving loan fund. Each participating school is allowed to determine its own selection criteria and award levels for these programs within federal guidelines. A student's financial aid package may contain aid from one or more of these programs depending on whether the school participates in any of

these programs, the amount of funds available for a program in which the school participates, and the school's packaging policies.

**Cancellation (of a Guarantee):** The revocation of a loan guarantee, which occurs if any of the following conditions exists:

- 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.
- Electronic funds transfer (EFT) or master check loan proceeds in the school's account were not delivered to the borrower within 120 days after being transferred to the account.
- The loan was repaid in full within 120 days of final disbursement.

The guarantee is not revoked on the remainder of the loan if one disbursement is canceled.

**Capitalization:** An increase in the principal balance of a Stafford, SLS, PLUS, or Consolidation loan that occurs when a lender adds the accrued interest 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, certifying that certain eligibility criteria have been met.

**CFR:** See Code of Federal Regulations (CFR)

**Change of Control:** An occurrence that signifies that a different person, partnership, or corporation has obtained authority to control the actions of a school, or that the school has changed from a for-profit entity to a nonprofit entity, or vice versa. 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.
[§600.31; 09-10 FSA Handbook, Volume 2, Chapter 5, pp. 2-52 to 2-55]

**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 Stafford, PLUS, and SLS loan borrowers and recipients. See Subsection 5.2.A.

**Claim:** The process by which the lender (or lender's servicer) requests reimbursement from the guarantor for its losses on a Stafford, SLS, PLUS, or Consolidation loan due to the borrower's default or eligibility for loan discharge or forgiveness.

**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 (COA)

**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. This includes borrowers whose underlying Stafford and SLS loans have been included in a Consolidation loan. 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 noted, the cohort default rate pertains to the FFELP cohort default rate or the dual-program cohort default rate. See Chapter 16 of this Manual for a discussion of cohort default rates and the process for challenges, adjustments, and appeals.

**Collection Costs:** Costs incurred in the collection of the loan by the loan holder and charged to the borrower. These costs 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 spouses who jointly borrowed a Consolidation loan made from an application received by the consolidating lender prior to July 1, 2006, each of whom was eligible and is jointly and severally liable for the loan's repayment, regardless of future marital status. The term also refers to one of two parents who jointly borrowed a PLUS loan made prior to April 16, 1999. [§682.200(b)]

**Commercial Paper Rate:** Commercial paper includes short-term, unsecured promissory notes issued primarily by large, well-known corporations and finance companies. The average of the bond equivalent rates of the quotes of the 3-month commercial paper (financial) rates in effect for each of the days in the quarter is a factor in determining the amount of special allowance paid to a lender by the Department for eligible Stafford and PLUS loans first disbursed on or after January 1, 2000, and eligible Consolidation loans made from applications received by lenders on or after January 1, 2000. See Section A.2 and Subsection A.2.A.

**Common Form:** A standardized form for the administration of the FFELP that is developed and maintained by FFELP participants and approved by the Department. For more information and a list of the common forms, see Subsection 2.3.C.

**Confirmation (as it relates to the MPN):** A process by which the school or lender, prior to disbursing a loan, advises the borrower of the proposed loan types and amounts. The borrower may accept the loan(s) passively (by taking no action) or affirmatively (by notifying the school in writing or electronically of his or her acceptance of the loan(s) or any changes he or she wishes to make to the loan types or amounts).

**Consummated Loan:** A loan for which a disbursement check has been negotiated or electronic funds transfer (EFT) or master check funds have been delivered to the borrower. For example, a loan is considered consummated if the borrower has cashed the check, if an individual check, or the school has 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 Course:** A typically self-paced course in which the school provides instructional materials, including examination of those materials, by mail or electronic transmission, to students who are separated from the instructor. Interaction between the instructor and student is limited, is not regular and substantive, and is primarily initiated by the student. If a course is a combination of correspondence work and residential training, the course is considered to be a correspondence course. A correspondence course is not distance education. See Subsection 4.1.D and Section 5.13 for more information.
[§600.2 definition of *correspondence course*]

**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 the period of enrollment. See Section 6.5.

**Cost of Education:** See Cost of Attendance (COA)

**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.

**Curing Instrument:** Documentation the lender must obtain and retain to substantiate a cure. Examples of a curing instrument include, but are not limited to, a signed repayment agreement, evidence of one full payment received from or on behalf of the borrower, or documentation of the activities performed in an Intensive Collection Activities (ICA) cure.

## D

**DAA:** See Default Aversion Assistance (DAA)

**DCL:** See Dear Colleague Letter (DCL)

**Deactivation:** Loss of eligibility for a lender to participate in the FFELP. The Department will notify lenders that have failed to submit a Lender's Interest and Special Allowance Request and Report (LaRS report) 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.

***Dear Partner Letter* (DPL):** A communication from the Department that explains and clarifies the Department's guidance regarding federal regulations and statutes.

**Default:** The failure of a borrower (or endorser or comaker, if any) to make installment payments when due, provided that this failure persists for the most recent period of 270 days (for a loan repayable in monthly installments) or the most recent 330-day period (for a loan repayable in less frequent installments). A loan also may be considered in default if the borrower (or endorser or comaker, if any) fails 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 the loan. See Section 13.6.

**Default Aversion Assistance (DAA):** The help provided to a lender by the guarantor in order to prevent a delinquent loan from defaulting. See Section 12.5.

**Default Aversion Assistance Request Period:** The period during which a lender must submit a request for default aversion assistance from a guarantor. This period begins no earlier than the 60th day and ends no later than the 120th day of the borrower's delinquency.

**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 Chapter 11.

**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 student completes the first 30 days of his or her program of study. For more information on delayed delivery provisions, see Subsection 8.7.D.

**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.

See Section 6.4.

**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 Section 12.2.

**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 12.

**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 7.7). 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 15.4).

**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), the date the funds are transferred from the lender to the school or escrow agent.

**Discharge:** The release of a borrower or any comaker from all or a portion of his or her loan obligation, as applicable, due to bankruptcy; school closure; death; being a spouse or parent of a victim of the September 11, 2001, terrorist attacks; total and permanent disability; an unpaid refund by the school; the school's false certification of a FFELP loan; or false certification due to a crime of identity theft. See Section 13.8.

**Distance Education:** Education that uses one or more technologies to deliver instruction to a student who is separated from the instructor and to support regular and substantive interaction between the student and the instructor, either simultaneously or at different times. Any of the following are permissible distance education technologies:

- The Internet.
- One-way and two-way transmissions through open broadcast, closed circuit, cable, microwave, broadband lines, fiber optics, satellite, or wireless communications devices.
- Audio conferencing.

Videocassettes, DVDs, and CD-ROMs may also be used in conjunction with any of the technologies listed above. [§600.2 definition of *distance education*]

**Documentation:** A written or printed paper, a supporting reference, or a record that can be used to furnish evidence, proof, or information.

**DPL:** See Dear Partner Letter (DPL)

**Dual-Program Cohort Default Rate:** For a school that has former students entering repayment in a fiscal year on both FFELP and FDLP loans, the Department calculates a dual-program cohort default rate. See Section 16.2 for calculation formulas.

**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 Chapter 12.

## E

**Economic Hardship:** A period during which the borrower is experiencing financial difficulty in making his or her student loan payments due to a qualifying condition that is recognized in federal regulations. See Subsection 11.4.A for a list of the eligibility criteria for the economic hardship deferment.

**EFA:** See Estimated Financial Assistance (EFA)

**EFC:** See Expected Family Contribution (EFC)

**Effective 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 Section 12.7 for address skip tracing requirements). See also Skip Tracing.

**EFT:** See Electronic Funds Transfer (EFT)

**Electronic Cohort Default Rate (eCDR) Notification Package:** The electronic process the Department uses to notify a domestic school of its cohort default rates. A school will receive a loan record detail report in the eCDR package if the school had one or more borrowers entering repayment in the applicable fiscal year or is subject to sanctions or the Department believes that the school will have an official cohort default rate calculated as an average rate. Beginning with the official FY 2008 cohort default rate cycle in September 2010, the Department will exclusively transmit the CDR notifications to foreign schools electronically through the eCDR process. See Chapter 16.

**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 7.7.D.

**Electronic Signature:** Information in electronic format that is attached to or logically associated with an electronic record and used by a person with the intent to sign the electronic record.

**Eligible Borrower:** A borrower who meets federal eligibility criteria for a Stafford or PLUS loan. See Section 5.1 for specific criteria.

**Eligible Not-For-Profit Holder:** As it relates to special allowance payments on loans first disbursed on or after October 1, 2007, a holder of a loan that is:

- A state, or political subdivision, authority, agency, or other instrumentality of such, including those lenders that are eligible to issue tax-exempt bonds, and that made or acquired a FFELP loan on or before September 27, 2007.
- A qualified scholarship funding corporation established by a state, or one or more political subdivisions, that has not elected to cease status as a qualified scholarship funding corporation and that made or acquired a FFELP loan on or before September 27, 2007.
- A tax-exempt organization as described in §501(c)(3) of the Internal Revenue Code of 1986 that made or acquired a FFELP loan on or before September 27, 2007.
- An eligible lender trustee (ELT) acting on behalf of an entity (other than an eligible school) that is a state or nonprofit entity or special purpose entity for a state or

nonprofit entity that was the sole beneficial owner of a loan eligible for special allowance payments on September 27, 2007.

See Subsection A.2.A for more information on eligible not-for-profit holder designations.

**Eligible Student:** A student who meets federal student eligibility criteria. See Subsection 5.1.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 18.1.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 applicant with adverse credit to obtain an endorser without adverse credit 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 Reporting:** The method by which schools confirm and report to the National Student Loan Data System (NSLDS) the enrollment status of attending students who receive Title IV loans. This process was formerly known as the Student Status Confirmation Report (SSCR).

**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:** Required counseling that must be provided to a first-time Stafford borrower or a first-time Grad PLUS borrower. The school must conduct counseling in person, by audiovisual presentation, or by interactive electronic means. See Subsection 4.4.C.

**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 national service awards and benefits (except when determining eligibility for a subsidized Stafford Loan), scholarships, grants, financial need-based employment, or loans. EFA does not include Federal Perkins loans or Federal Work-Study funds that the student has declined or certain loans used to replace the expected family contribution, or federal veterans' education benefits. See Section 6.7.

**Excess Interest Rebate:** See Windfall Profits

**Exit Counseling:** Required counseling that must be provided to Stafford and Grad PLUS loan borrowers shortly before graduating or ceasing at least half-time enrollment. The school must conduct counseling in person, by audiovisual presentation, or by interactive electronic means. See Subsection 4.4.D.

**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. See Section 6.6.

**Expedited-Standard:** The repayment schedule available to a borrower who chooses to leave the income-based repayment (IBR) plan. The payment amount is calculated on the basis of both of the following:

- The borrower's outstanding balance on the loan when the borrower discontinues paying under an IBR plan.
- The time remaining under a 10-year repayment period for Stafford, SLS, and Grad PLUS loans or under the applicable repayment period (between 10 and 30 years according to the original loan balance) for a Consolidation loan.

**Extended Repayment Schedule:** A repayment schedule available to a "new borrower" on or after October 7, 1998, with outstanding principal and interest in FFELP loans totaling more than $30,000. An extended repayment schedule may provide for standard or graduated installments over a period not to exceed 25 years.

## F

**FAA:** See Financial Aid Administrator (FAA)

**FAFSA:** See Free Application for Federal Student Aid (FAFSA)

**FAT:** See Financial Aid Transcript (FAT)

**FDLP:** See Federal Direct Loan Program (FDLP)

**Federal Consolidation Loan Application and Promissory Note:** A common form that a borrower—or, as applicable, spouses as comakers—must complete to apply for a Federal Consolidation loan. For more information about Federal Consolidation loans, see Chapter 15.

**Federal Default Fee:** A fee collected by the guarantor either by deduction from the proceeds of the loan or from other nonfederal sources. The Higher Education Act requires that this fee equal 1% of the loan principal. This fee replaced the guarantee fee. See Section 7.8.

**Federal Direct Loan Program (FDLP):** A student loan program authorized on July 23, 1992, by Title IV, Part D, of the Higher Education Act of 1965, as amended. The FDLP offers Federal Direct (Subsidized) Stafford loans, Federal Direct Unsubsidized Stafford loans, Federal Direct PLUS loans, and Federal Direct Consolidation loans. The FDLP is similar to the FFELP, except that loans are made by the Department rather than by private lending institutions.

**Federal Family Education Loan Program (FFELP):** A student loan program authorized by Part B of Title IV of the Higher Education Act of 1965, as amended. The FFELP includes the Stafford, PLUS, SLS, and Consolidation Loans. These loans are funded by lenders, guaranteed by guarantors, and reinsured by the Department.

**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 10.9). Some Consolidation loans also may qualify for interest benefits (see Section 15.6). For more detailed information regarding the collection of federal interest benefits, see Section A.1.

**Federal Perkins Loan:** A low-interest, long-term loan intended for undergraduate or graduate and professional students with financial need. The Federal Perkins Loan Program is one of the campus-based programs administered by a school's financial aid office. For more information, see the FSA Handbook.

**Federal PLUS Loan Application and Master Promissory Note (PLUS MPN):** A common form that allows a parent or graduate or professional student borrower to receive loans for either a single academic year or multiple academic years. A parent borrower must complete a separate PLUS MPN for each dependent student for whom he or she wishes to borrow (see Section 6.16).

**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.

**Federal Stafford Loan Master Promissory Note (Stafford MPN):** A common form that allows a student borrower to receive loans for either a single academic year or multiple academic years (see Section 6.16).

**Federal Supplemental Educational Opportunity Grant (FSEOG):** A grant intended for undergraduate students with exceptional financial need. The FSEOG is one of the campus-based programs administered by a school's financial aid office. For more information, see the FSA Handbook.

**Federal Work-Study (FWS):** An employment program intended for undergraduate or graduate and professional students with financial need that allows students to work part time to help pay for their educational costs. The FWS program is one of the campus-based programs administered by a school's financial aid office. For more information, see the FSA Handbook.

**FFELP:** See Federal Family Education Loan Program (FFELP)

**File Transfer Protocol (FTP):** A standard Internet protocol that allows the transmission of data files.

**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 241st 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 cost of attendance. 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 (FAT):** 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 11.20.

**Foreign School:** An eligible school located outside the United States and its territories.

**Forgiveness:** The release of a borrower or any comaker, as applicable, from all or a portion of his or her loan obligation as a result of public service provided by the borrower or comaker, as authorized by Title IV, Part B of the Higher Education Act, as amended. See Section 13.9.

**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 Section 6.6.

**Freely Associated States:** The Republic of the Marshall Islands, the Federal States of Micronesia, and the Republic of Palau. See also State.

**FTP:** See File Transfer Protocol (FTP)

**Full-Time Student:** An enrolled student (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 the same program of study. The student's workload may include any combination of courses, work, research, or special studies that the school considers sufficient to classify the student as a full-time student. For a term-based program (using standard or nonstandard terms), previously-failed coursework that is repeated may be counted toward the student's Title IV enrollment status. Previously-passed coursework that is repeated (for example, to obtain a better grade) may be counted only once toward the student's Title IV enrollment status. Previously-passed coursework that the school requires the student to repeat due to the student failing other coursework may not be counted toward the student's Title IV enrollment status. Non-credit and reduced-credit remedial courses must be included when determining enrollment status if the student qualifies for Title IV aid for those courses. See Section 6.9 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.

## G

**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 10.3).

**Grad PLUS Loan:** A PLUS loan made to a graduate or professional student.

**Grade Level:** A student's academic class level, as certified by a school official. Undergraduate students are *01* (first-year) through *05* (fifth-year/other undergraduate); graduate and professional students are *A* (first-year) through *D* (fourth-year and beyond). A school must provide the appropriate grade level code (e.g., *01* through *05*) on the Federal Stafford Loan School Certification.

**Graduate or Professional Student:** A student who:

- Is enrolled in a program or course above the baccalaureate level or enrolled in a program leading to a professional degree at an eligible school.

- Has completed the equivalent of at least three years of full-time study at an eligible school, either before entrance into the program or as part of the program itself, e.g., a dual-degree program that allows an individual to complete a bachelor's degree and either a graduate or professional degree within the same program. A student is considered to be an undergraduate student for at least the first 3 years of a dual-degree program. The school defines the point at which a student enrolled in a dual-degree program is considered to be a graduate student after the first 3 years. For example, in a 5-year program leading to a graduate degree, the school may define a student as a graduate student after the first 3 or 4 years of the program.

- Is not receiving Title IV aid as an undergraduate student for the same period of enrollment.

[08-09 FSA Handbook, Volume 3, Chapter 5, p. 3-92]

**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 (or 25 years for borrowers eligible for an extended repayment schedule), 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 Section 6.20.

**Guarantee Fee:** A fee the guarantor was permitted to charge on a loan disbursed on or after July 1, 1994, and for which the date of guarantee of principal was before July 1, 2006. The Higher Education Act limited this fee to no more than 1% of the principal. This fee was replaced by the federal default fee.

**Guarantor (or Guaranty Agency):** A state or private nonprofit organization that has an agreement with the Department to administer a loan guarantee program under the Higher Education Act.

**Guaranty Agency:** See Guarantor (or Guaranty Agency)

## H

**Half-Time Student:** A student enrolled in an undergraduate program who is carrying an academic workload that includes at least half of the academic workload of the applicable regulatory minimum full-time enrollment standard for that program. Half-time enrollment for a graduate or professional program must include at least half of the full-time academic workload defined by the school for the graduate or professional students enrolled in that program. A student enrolled solely in an eligible program of study by correspondence is never considered more than a half-time student, even if the student is enrolled in enough correspondence coursework to be considered full time. See Section 6.9 for more information.

**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 18 of this Manual. The Hearing Officer for any hearing will be selected by the guarantor.

**Holder:** An eligible lender owning a FFELP loan. 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.

## I

**ICA/Location Cure Procedure:** See Intensive Collection Activities (ICA)

**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-Based Repayment (IBR) Schedule:** A repayment plan available to a borrower who has a partial financial hardship (PFH) or is paying a permanent-standard payment amount after qualifying for PFH. If a lender determines that a borrower has a PFH, the borrower's monthly payment amount on eligible loans is limited to 15% of the amount by which the borrower's annual adjusted gross income exceeds 150% of the U.S. Department of Health and Human Services poverty guideline for the borrower's family size. Eligible FFELP and Direct loans include the outstanding balances on all loans except a defaulted loan, a FFELP or Direct parent PLUS loan, and a FFELP or Direct Consolidation loan that repaid a FFELP or Direct parent PLUS loan. The Department repays the outstanding balance and accrued interest on eligible FFELP and Direct loans after 25 years and a combination of 300 months covered by qualifying payments and/or economic hardship deferments, beginning no earlier than July 1, 2009.

See Partial Financial Hardship (PFH).

**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 criteria listed on the Free Application for Federal Student Aid (FAFSA) that classify a student as independent for Title IV purposes. A student also may be classified as independent if a financial aid administrator determines and documents that the student is independent based on his or her professional judgment of the student's unusual circumstances. See Section 6.8 for additional information regarding the determination of a student's dependency status.

**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 5.1.A for specific eligibility criteria, and Subsections 12.4.F and 13.6.B 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 10.2.

**Institution of Higher Education:** A public or private nonprofit school that:

- Is located in a state (see State). [§600.4(a)(1)]
- Admits as a regular student only a person who meets any one of the following conditions:
  - Has a certificate of graduation from a secondary school or a recognized equivalent. [HEA §101(a)(1); §600.4(a)(2)(i) and (ii)]
  - Is beyond the age of compulsory school attendance in the state in which the school is physically located. [HEA §101(b)(2)(A); §600.4(a)(2)(iii)]
  - Has completed a secondary school education in a home school setting that is treated as a home school or private school under state law. [HEA §101(a)(1)]
  - Will be dually or concurrently enrolled in the institution and a secondary school. However, a school must not award Title IV aid for

postsecondary enrollment to a student who is concurrently enrolled in a secondary school (see Section 5.12).
[HEA §101(b)(2)(B)]

- Is legally authorized in each state in which it is physically located to provide a program of education beyond secondary school. See the subheading "State Authorization" in the introduction to Chapter 4 for information about requirements that may apply to an institution of higher education that offers postsecondary education through distance or correspondence education.
[HEA §101(a)(2); §600.4(a)(3); §600.9]

- Provides any one of the following:

  - A program 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.
[HEA §101(a)(3); §600.4(a)(4)(i)(A) and (B)]

  - A training program of at least one academic year that leads to a certificate, degree, or other recognized credential and prepares students for gainful employment in a recognized occupation.
[HEA §101(a)(4) and (b)(1); §600.4(a)(4)(i)(C)]

  - At a school that does not offer a bachelor's degree or a two-year degree, a program that leads to a degree that is acceptable for admission to a graduate or professional degree program, subject to review and approval by the Department.
[HEA §101(a)(3); DCL GEN-08-12]

- May provide a comprehensive transition and postsecondary program for students with intellectual disabilities.
[§600.4(a)(4)(ii); 11-12 FSA Handbook, Volume 2, Chapter 1, p. 2-2 and Chapter 2, p. 2-20]

- Meets either of the following conditions:

  - The school is accredited by a nationally recognized accrediting agency or association approved by the Department 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.
[HEA §101(a)(5); §600.4(a)(5)(i)]

  - The school is approved by a state agency listed in the *Federal Register* if the school is a public postsecondary vocational institution that seeks to participate only in federal assistance programs.
[§600.4(a)(5)(ii); §603]

Also see Proprietary Institution and Postsecondary Vocational Institution. For more general definitions, see Participating School and School. See Subsection 4.1.A for more information about school eligibility conditions.

**Institution-Affiliated Organization:** Any organization directly or indirectly related to a school that is engaged in the practice of recommending, promoting, or endorsing education loans for students attending that school or their families. Such an organization may include an alumni organization; athletic organization; foundation; or social, academic, or professional organization of a school. An institution-affiliated organization does not include a lender with respect to any education loan the lender secures, makes, or otherwise extends to the school's students or their families.

**Institutional Student Information Record (ISIR):** The electronic output record provided to the school by the Department's Central Processing System that includes information provided by the student on the Free Application for Federal Student Aid (FAFSA). The ISIR also contains the student's expected family contribution (EFC) and the results of federal database matches. The paper version that is sent to the student is called a Student Aid Report (SAR).

**Insurance Premium:** See Federal Default Fee and 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 Section 14.6.

**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 Section 7.4.

**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:** See Treasury Offset

**ISIR:** See Institutional Student Information Record (ISIR)

## L

**LaRS:** See Lender's Interest and Special Allowance Request and Report (LaRS Report)

**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 10.5. 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 7.7.G and 8.7.E.

**Leader, Summer Term:** A summer term that comes at the beginning of a school's Scheduled Academic Year.

**Leave of Absence:** For purposes of the *Common Manual,* a leave of absence is a status in which the student is considered to be continuously enrolled for Title IV program purposes, as approved by the school. An approved leave of absence is a break in enrollment, not including a semester or spring break, that is requested by the student and approved by the school based upon the school's published leave of absence policy. The student's request must be in writing and must include the reason for the leave. In an approved leave of absence, the student does not incur any additional charges. The total number of days of all approved leaves of absence may never exceed 180 days in any 12-month period.

For information on an *unapproved* leave of absence (i.e., a leave of absence that is not considered approved for Title IV purposes), see Sections 9.3 and 9.4.

**Lender:** For purposes of the Federal Family Education Loan Program (FFELP), a lender is an entity that has entered into an agreement to participate in the FFELP. A lender may be a national or state chartered bank, a mutual savings bank, a savings and loan association, a stock savings bank, a credit union, a pension fund, an insurance company, a single state agency, the Student Loan Marketing Association (SLMA), a Rural Rehabilitation Corporation, a nonprofit private agency functioning in a state as a secondary market, a consumer finance company subsidiary of a national bank, a guarantor, or a school. Each entity must meet the specific eligibility qualifications, as applicable, outlined in Sections 3.1 and 3.2.

**Lender Fee:** A fee that the holder of the loan must pay to the Department. For any loan first disbursed on or after October 1, 1993, and prior to October 1, 2007, the fee is equal to 0.5% of the principal amount of the loan. For loans first disbursed on or after October 1, 2007, the fee is equal to 1.0% of the principal amount of the loan. This fee is deducted from interest and special allowance due the lender. The lender remits the fee by making an entry on the Lender's Interest and Special Allowance Request and Report (LaRS report) 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 Appendix A.

**Lender of Last Resort (LLR):** A lender or guarantor that agrees to make Stafford and/or PLUS loans to each of the following:

- Student and/or parent borrowers who are otherwise unable to obtain loans from other eligible lenders for the same period of enrollment.
- Student borrowers who are attending schools that have been designated as LLR schools and parents of students attending such schools. See Section 3.7 and Subsection H.4.E.

**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 Interest and Special Allowance Request and Report (LaRS Report):** An accounting mechanism that a lender uses to report to the Department the loans that it has made and to request from the Department interest benefits and special allowance that it has earned. The federal origination and lender fees that the lender must pay to the Department are usually deducted from the amount that the Department owes the lender for interest benefits and special allowance. The lender may submit the report using the automated Lender Reporting System or the paper form. See Appendix A.

**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 18.1.A.

**LLR:** See Lender of Last Resort (LLR)

**Loan Assignment:** See Assignment

**Loan Period:** The period of time for which a loan is certified.

**Loan Proceeds:** The amount of loan funds that have been guaranteed.

**Loan Record Detail Report (LRDR):** The report issued by the Department that contains the detailed data used to calculate a school's draft or official cohort default rate. See Chapter 16.

**Loan Sale:** The change in ownership of a loan from one eligible FFELP lender or holder to another lender or holder.

**Loan Transfer:** Any action that results in a change of the system used to monitor or conduct collection activities on the loan, such as a change in servicer. See Subsections 3.4.B and 3.5.E.

**Location Cure Procedure:** See Intensive Collection Activities (ICA)

## M

**Mandatory Administrative Forbearance:** Forbearance that a lender is required to grant in certain cases. See Section 11.23 and Figure 11-2 for comprehensive information about cases in which mandatory administrative forbearance is applicable, and a description of a lender's responsibilities in each case.

**Mandatory Forbearance:** Forbearance that a lender is required to grant in certain cases. See Section 11.24 and Figure 11-2 for comprehensive information about cases in which mandatory forbearance is applicable, and a description of a lender's responsibilities in each case.

**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):** See Federal Stafford Loan Master Promissory Note (Stafford MPN) and Federal PLUS Loan Application and Master Promissory Note (PLUS MPN)

**Module:** A course or group of courses that does not span the entire length of the payment period or period of enrollment in a program including, for example, an intersession that the school combines with a standard term, or mini-sessions that the school combines to form a summer term.
[§668.22(l)(6); *Federal Register* dated October 29, 2010, pp. 66897 and 66935]

**MPN:** See Master Promissory Note (MPN)

**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 7.7.B.

## N

**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 Council of Higher Education Loan Programs (NCHELP):** A nationwide network of guarantors, secondary markets, lenders, loan servicers, collectors, and other organizations involved in the administration of the Federal Family Education Loan Program. NCHELP represents its members on public policy and regulatory issues with the legislative and executive branches of the federal government.

**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.

**Nationwide Consumer Reporting Agency:** An agency that regularly engages in the practice of assembling or evaluating, and maintaining, for purposes of furnishing consumer reports to third parties bearing on a consumer's creditworthiness, credit standing, or credit capacity, each of the following regarding consumers residing nationwide: public record information, and credit account information from persons who furnish that information regularly and in the ordinary course of business.
[Section 603(p) of the Fair Credit Reporting Act [15 U.S.C. 1681a(p)]]

**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).

**Notification (as it relates to the Stafford 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)

## O

**Official:** The person at the guarantor with the responsibility for initiating an Action under the Limitation, Suspension, or Termination procedures outlined in Chapter 18 of this Manual.

**One-Academic-Year Training Program:** A program that includes:

- At least 30 weeks of instructional time and 24 semester or trimester hours, or 36 quarter hours in a program using credit hours to measure academic progress.
- At least 26 weeks of instructional time and 900 clock hours of supervised training in a program using clock hours to measure academic progress.
- At least 26 weeks of instructional time and 900 clock hours in a correspondence program.

**Opportunity Pool Loan:** A private education loan made by a lender to a student (or the student's family) that involves a payment by the school of points, premiums, additional interest, or financial support to the lender for extending credit to the student (or the student's family).

**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, if charged to the borrower, may be subtracted from the borrower's loan proceeds. See Section 7.9.

**Out-of-School Date:** The date the student ceases to be enrolled on at least a half-time basis at an eligible school.

**Overaward:** The amount of a student's need-based aid that exceeds the student's financial need, or the amount of the student's estimated financial assistance (EFA), including any need-based aid, that exceeds the student's COA. See Section 8.6.

## P

**Parent:** For purposes of PLUS loan eligibility, a student's natural or adoptive mother, father, 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.

**Parent PLUS Loan:** A PLUS loan made to the parent of a dependent undergraduate student.

**Partial Cancellation:** Cancellation of a disbursement or a portion of a disbursement rather than of an entire loan.

**Partial Financial Hardship (PFH):** A borrower has a partial financial hardship if the annual payment amount on all eligible FFELP and Direct Loans exceeds 15% of the difference between the borrower's adjusted gross income and 150% of the U.S. Department of Health and Human Services poverty guideline applicable to the borrower's family size and state of residence. Eligible FFELP and Direct loans include the outstanding balances on all loans except a defaulted loan, a FFELP or Direct parent PLUS loan, and a FFELP or Direct Consolidation loan that repaid a FFELP or Direct parent PLUS loan. See Subsection 10.8.D for more specific information on how to determine if a borrower has a PFH.

See Income-Based Repayment (IBR) Schedule.

**Participating School:** An eligible school that meets the standards for participation in Title IV programs in subpart B, has a current Program Participation Agreement with the Department, and is eligible to receive funds under these programs.

**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 Section 6.3.

**Pell Grant:** A federal need-based grant. For more information about this program, see the FSA Handbook.

**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 Section 6.2). 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 Department of Homeland Security, United States Citizenship and Immigration Service (USCIS). 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."

**Permanent-Standard:** A repayment schedule available to a borrower under the income-based repayment plan. The payment amount is calculated on the basis of both of the following:

- The borrower's outstanding loan balance when the borrower begins repayment under an IBR plan.
- A 10-year repayment period.

**PLUS MPN:** See Federal PLUS Loan Application and Master Promissory Note

**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 11.1.H. See Section H.1, under April 9, 1991, for information on the post-deferment grace period applicable to Operations Desert Shield/Desert Storm.

**Postsecondary Vocational Institution:** A public or nonprofit private educational institution that:

- Provides an eligible program of training to prepare students for gainful employment in a recognized occupation.
  [HEA §102(c)(1)(A); §600.6(4)(i)]
- May provide a comprehensive transition and postsecondary program for students with intellectual disabilities.
  [§600.6(a)(4)(ii); 11-12 FSA Handbook, Volume 2, Chapter 1, p. 2-2 and Chapter 2, p. 2-20]
- Is located in a state (see State).
  [§600.6(a)(1)]

- Admits as a regular student only a person who meets any one of the following conditions:
  - Has a certificate of graduation from a secondary school or a recognized equivalent. [§600.6(a)(2)(i) and (ii)]
  - Is beyond the age of compulsory school attendance in the state in which the school is physically located. [HEA §102(c)(2)(A); §600.6(a)(2)(iii)]
  - Has completed a secondary school education in a home school setting that is treated as a home school or private school under state law. [HEA §101(a)(1); HEA§102(c)(1)(B)]
  - Will be dually or concurrently enrolled in the postsecondary vocational institution and a secondary school. However, a school must not award Title IV aid for postsecondary enrollment to a student who is concurrently enrolled in a secondary school (see Section 5.12). [HEA §101(c)(2)(B)]
- Is legally authorized in each state in which it is physically located to provide a program of education beyond secondary school. See the subheading "State Authorization" in the introduction to Chapter 4 for information about requirements that may apply to a postsecondary vocational institution that offers postsecondary education through distance or correspondence education. [§600.6(a)(3); §600.9]
- Meets either of the following conditions:
  - The institution is accredited by a nationally recognized accrediting agency or association approved by the Department for this purpose, or if not so accredited, is an institution that the Department determines will meet the accreditation standards of such an agency or association within a reasonable period of time. [§600.6(a)(5)(i)]
  - The institution is approved by a state agency listed in the *Federal Register* if it is a public postsecondary vocational educational institution that seeks to participate only in federal assistance programs. [§600.6(a)(5)(ii); §603]
- Has been legally authorized to provide and has been continuously providing the same postsecondary educational program(s) to prepare students for gainful employment in a recognized occupation for at least 2 years prior to the date of the institution's application to participate in the Title IV programs. See 34 CFR 600.6(b) and the FSA Handbook, Volume 2, Chapter 1 for additional information. [HEA §102(c)(1)(C); §600.6(a)(6); 11-12 FSA Handbook, Volume 2, Chapter 1, p. 2-7]
- Provides any one of the following:
  - An undergraduate program of at least 15 weeks of instructional time and 600 clock hours, 16 semester or trimester hours, or 24 quarter hours. The postsecondary vocational institution may admit students without an associate degree or equivalent.
  - A program of at least 10 weeks of instructional time and 300 clock hours, 8 semester or trimester hours, or 12 quarter hours. The program must be a graduate or professional program, or the institution may admit only students with an associate degree or equivalent.
  - An undergraduate program of at least 10 weeks of instructional time and 300 to 599 clock hours. The postsecondary vocational institution must admit at least some students who do not have an associate degree or the equivalent, and the program must meet additional conditions as described in Subsection 4.1.C.

  [11-12 FSA Handbook, Volume 2, Chapter 1, p. 2-2]

Also see Institution of Higher Education and Proprietary Institution. For more general definitions, see Participating School and School. See Subsection 4.1.A for more information about school eligibility conditions.

**Post-Withdrawal Disbursement:** A disbursement made when the calculations for the school's return of Title IV funds result in the student being eligible to receive more Title IV aid than was disbursed or delivered prior to his or her withdrawal. A post-withdrawal disbursement must meet certain conditions for late disbursement. See Subsection 9.5.A.

**PPA:** See Program Participation Agreement (PPA)

**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:** See Default Aversion Assistance (DAA)

**Preferred Lender Arrangement:** An arrangement or agreement between a lender and a school or an institution-affiliated organization, under which the lender provides or otherwise issues FFELP or private education loans to students attending the school (or the students' families) and under which involves the school or institution-affiliated organization recommends, promotes, or endorses the lender's education loan products. Such an arrangement does not apply to a school participating in the Federal Direct Loan Program.

**Prehearing Conference (as used in Chapter 18):** 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 10.11.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 Degree:** A degree that signifies both completion of the academic requirements for beginning practice in a given profession and a level of professional skill beyond that normally required for a bachelor's degree. Professional licensure is also generally required. Examples of a professional degree include, but are not limited to: Pharmacy (Pharm. D.), Dentistry (D.D.S. or D.M.D.), Veterinary Medicine (D.V.M.), Chiropractic (D.C. or D.C.M.), Law (L.L.B. or J.D.), Medicine (M.D.), Optometry (O.D.), Osteopathic Medicine (D.O.), Podiatry (D.P.M., D.P., or Pod. D.), and Theology (M. Div. or M.H.L.).

**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 Subsections 6.5.D and 6.6.B.

**Professional Student:** See Graduate or Professional Student, and Professional Degree.

**Program of Study:** A Department-authorized postsecondary educational program that leads to a degree, certificate, or other educational credential.

**Program Participation Agreement (PPA):** An agreement that a school and the U.S. Department of Education must sign, permitting participation in one or more of the Title IV federal student aid programs. This agreement also states that the initial and continued eligibility to participate in the Title IV federal student aid 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 17 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.

**Proprietary Institution (of Higher Education):** A for-profit educational institution that:

- Provides a program(s) that meets either of the following conditions:
  - The program trains students for gainful employment in a recognized occupation.
  - The program leads to a baccalaureate degree in liberal arts that the institution has provided since January 1, 2009, and that has been continuously

accredited by a recognized regional accrediting agency since October 1, 2007.
[§600.5(i)]

- May provide a comprehensive transition and postsecondary program for students with intellectual disabilities.
  [§600.5(a)(5)(ii); 11-12 FSA Handbook, Volume 2, Chapter 1, p. 2-2 and Chapter 2, p. 2-20]

- Is located in a state (see State).
  [§600.5(a)(2)]

- Admits as a regular student only a person who meets any one of the following conditions:

  – Has a certificate of graduation from a secondary school or a recognized equivalent.
    [§600.5(a)(3)(i) and (ii)]

  – Is beyond the age of compulsory school attendance in the state in which the school is physically located.
    [§600.5(a)(3)(iii)]

  – Has completed a secondary school education in a home school setting that is treated as a home school or private school under state law.
    [HEA §101(a)(1); HEA§102(b)(1)(B)]

  – Will be dually or concurrently enrolled in the proprietary institution and a secondary school. However, a school must not award Title IV aid for postsecondary enrollment to a student who is concurrently enrolled in a secondary school (see Section 5.12).
    [HEA §102(b)(2)(B)]

- Is legally authorized in each state in which it is physically located to provide a program of education beyond secondary school. See the subheading "State Authorization" in the introduction to Chapter 4 for information about requirements that may apply to an proprietary institution that offers postsecondary education through distance or correspondence education.
  [§600.5(a)(4); §600.9]

- Is accredited by a nationally recognized accrediting agency or association approved by the Department for this purpose.
  [HEA §102(b)(1)(D); §600.5(a)(6)]

- Has been legally authorized to provide and has been continuously providing the same postsecondary educational program(s) to prepare students for gainful employment in a recognized occupation for at least 2 years prior to the date of the institution's application to participate in the Title IV programs. See 34 CFR 600.6(b) and the FSA Handbook, Volume 2, Chapter 1 for additional information.
  [HEA §102(b)(1)(E); §600.5(a)(7) and §600.5(b); 11-12 FSA Handbook, Volume 2, Chapter 1, p. 2-7]

- Provides any one of the following:

  – An undergraduate program of at least 15 weeks of instructional time and 600 clock hours, 16 semester or trimester hours, or 24 quarter hours. The proprietary institution may admit students without an associate degree or equivalent.

  – A program of at least 10 weeks of instructional time and 300 clock hours, 8 semester or trimester hours, or 12 quarter hours. The program must be a graduate or professional program, or the institution may admit only students with an associate degree or equivalent.

  – A short-term undergraduate program of at least 10 weeks of instructional time and 300 to 599 clock hours. The proprietary institution must admit at least some students who do not have an associate degree or the equivalent, and the program must meet additional conditions as described in Subsection 4.1.C.

  [11-12 FSA Handbook, Volume 2, Chapter 1, p. 2-2]

Also see Institution of Higher Education and Postsecondary Vocational Institution. For more general definitions, see Participating School and School. See Subsection 4.1.A for more information about school eligibility conditions.

**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:** A required calculation performed to determine the applicable annual Stafford loan limit for an undergraduate student whose program of study is less than an academic year, or whose remaining program of study is less than an academic year. See Figure 5-1.

**Public Service Loan Forgiveness Program:** A program intended to encourage individuals to enter and continue in full-time public service employment by forgiving the remaining balance of their Direct loan(s) after they satisfy the public service and loan payment requirements of the program.

## Q

**Qualified Education Benefit:** Refers to qualified tuition programs (e.g., 529 prepaid tuition plans and savings plans), prepaid tuition plans offered by a state, and Coverdell education savings accounts.

## R

**Reaffirmation:** A borrower's acknowledgment of a loan repayment obligation—including all principal, interest, collection costs, court costs, attorney fees, and late charges—in a legally binding manner.

**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.

**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. (Please refer to Subsection 13.2.B for the definition of recall (of a claim) for CCI purposes.)

**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 student paid toward institutional charges and the amount the school can retain under the appropriate (e.g., institutional, state, or accrediting agency) refund policy. See also Return of Title IV Funds. For more information on the federally mandated process for calculating the amount of Title IV funds to be returned when a student withdraws, see Sections 9.3, 9.4, and 9.5.

**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 13.7).

**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 Subsection 5.2.E).

**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 10.4, 10.5, and 10.6 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. For Consolidation loans, repayment begins on the date the loan is disbursed. See Sections 10.4 and 15.5.

**Repurchase (of a Claim):** A lender's purchase back from the guarantor of a loan on which a claim was filed and paid, if that purchase occurs more than 30 days after the lender receives the claim payment (see Section 13.5).

**Return of Title IV Funds:** The federally mandated process by which a school calculates the amount of federal funds to be returned for a Title IV aid recipient who withdraws or who ceases attendance during a payment period or period of enrollment. The calculations may result in a reduction of the student's Title IV loan and grant aid to reflect the percentage of the payment period or period of enrollment that the student attended, if he or she attended 60% or less of the period. Based on these calculations, the school and the student may be required to return "unearned" federal assistance. See Section 9.5.

**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 12.3.E.

**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).

## S

**SAP:** See Satisfactory Academic Progress (SAP)

**SAR:** See Student Aid Report (SAR)

**Satisfactory Academic Progress (SAP):** The qualitative (grade point average) and quantitative (time limit) measures of a student's progress toward completing a program of study. To maintain eligibility for Title IV aid, the student must show adequate progress. A school must establish policies regarding satisfactory academic progress, and must check the progress of Title IV aid recipients at least once each academic year, or at the end of each payment period if the educational program is either one academic year in length or shorter than an academic year.

**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 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 state offsets or federal Treasury 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 for more information on regaining eligibility for Title IV funds. See Section 15.2 for more information on consolidating a defaulted loan.

**SAY:** See Scheduled Academic Year (SAY)

**Scheduled Academic Year (SAY):** An academic year that corresponds to a traditional academic year calendar, i.e., a fixed period of time, as published 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 program's definition of Title IV academic year must be applied and must meet the minimum statutory requirements of an academic year for weeks of instructional time. A standard term-based credit-hour program or a credit-hour program with nonstandard terms that are substantially equal *and* at least nine weeks of instructional time in length (SE9W) may use an SAY if the program is offered in a traditional academic year calendar. The summer term may be treated as an add-on at the beginning (header) or end (trailer) of the SAY. For additional information, see Subsection 6.1.B and the 09-10 FSA Handbook, Volume 3, Chapter 6, pp. 3-105 to 3-108.

**School:** An institution of higher education, a proprietary institution of higher education, or a postsecondary vocational school declared eligible by the U.S. Department of Education to participate in one or more Title IV programs. Some guarantors may require schools to complete a separate agency-specific participation agreement. See Participating School.

**School-Affiliated Organization:** Any organization that is directly or indirectly related to a school, and includes, but is not limited to, alumni organizations, foundations, athletic organizations, and social, academic, and professional organizations.

**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.

**SE9W:** In a nonstandard term-based credit-hour program, the terms are referred to as "SE9W" if they are substantially equal in length and each term is at least nine weeks of instructional time in length. Nonstandard terms are considered substantially equal in length if no term in the loan period is more than two weeks of instructional time longer than any other term in the loan period. If a nonstandard term-based credit-hour program has terms that are not substantially equal in length, or if each term is not at least nine weeks of instructional time in length, the terms are *not* SE9W. For example, a nonstandard term-based, credit-hour program has terms that are 8 weeks of instructional time in length. While the nonstandard terms in this program are substantially equal in length (i.e., no term is more than 2 weeks longer than any other term), the terms are not at least 9 weeks of instructional time in length. Therefore, the nonstandard terms in this program are *not* SE9W.
[09-10 FSA Handbook, Volume 3, Chapter 6, p. 3-105]

**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.

**Self-Paced:** A flexible course structure in an educational program without terms that permits a student to complete courses without a defined schedule for completing the courses, or, at the student's discretion, to begin courses either on specific dates set by the school or at any time without a defined schedule for completing the program.
[09-10 FSA Handbook, Volume 3, Chapter 1, p. 3-25]

**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 Section 12.8 for telephone skip tracing requirements and Section 12.7 for address skip tracing requirements. See also Effective 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.

**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.

**SSN:** See Social Security Number (SSN)

**Stafford MPN:** See Federal Stafford Loan Master Promissory Note

**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, and forbearance periods.

**Standard-Standard:** A repayment schedule available to a borrower under the Income-Based Repayment plan. The payment amount is calculated on the basis of both of the following:

- The borrower's outstanding loan balance when the borrower initially entered repayment on the loan.
- A 10-year repayment period.

**State:** A state of the Union, the District of Columbia, the Commonwealth of Puerto Rico, American Samoa, Guam, the Virgin Islands, the Commonwealth of the Northern

Mariana Islands, and the Freely Associated States (the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau).

**State Authorization:** A state charter, statute, constitutional provision, or other action issued by an appropriate state agency or entity that establishes a school by name as a postsecondary educational entity, and the school otherwise meets the requirements established for that authorization in 34 CFR 600.9.

**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 Sections 7.4 and 7.5.

**Student Aid Report (SAR):** The paper output record provided to the student by the Department's Central Processing System that includes information provided by the student on the Free Application for Federal Student Aid (FAFSA). The SAR also contains student's expected family contribution (EFC), and the results of federal database matches. The electronic version that is sent to the school is called an Institutional Student Information Record (ISIR).

**Student Status Confirmation Report (SSCR):** See Enrollment Reporting

**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.

**Substantial Gainful Activity:** A level of work performed for pay or profit that involves doing significant physical or mental activities, or a combination of both. "For profit" covers a self-employed individual who is not paid by an employer and does not refer to income from sources other than employment. Non-employment income will not be considered when determining whether a borrower is capable of substantial gainful activity.

**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 18.1.B.

## T

**T-bill:** See Treasury Bill (T-bill).

**TEACH Grant:** See Teacher Education Assistance for College and Higher Education (TEACH) Grant.

**Teacher Education Assistance for College and Higher Education (TEACH) Grant:** A non-need-based grant intended for undergraduate, certain post-baccalaureate, and graduate students enrolled at TEACH grant-eligible schools who plan to become teachers. In exchange for the grant, a student must agree to serve as a full-time teacher in a high-need field, in a low-income school for at least four academic years within eight years of completing the program of study for which the student received the grant. If a TEACH grant recipient does not satisfy the service obligation, the TEACH grant funds that the student received convert to an unsubsidized Direct Stafford loan that must be repaid with interest accruing from the date of disbursement. See the FSA Handbook for more information about the TEACH grant.

**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 Section 11.16.

**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.

**Temporarily Totally Disabled:** The condition of an individual who, though not totally and permanently disabled, is unable to work and earn money or attend school during a period of at least 60 days needed to recover from injury or illness. With regard to a disabled dependent of a

borrower, this term means a spouse or other dependent who, during a period of injury or illness, requires continuous nursing or similar services for a period of at least 90 days.

**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 18.1.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.

**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 – Regular:** The condition of an individual who is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death, has lasted for a continuous period of not less than 60 months; or can be expected to last for a continuous period of not less than 60 months.

**Totally and Permanently Disabled – VA:** The condition of an individual who has been determined by the U.S. Department of Veterans Affairs (VA) to be unemployable due to a service-connected condition.

**Trailer, Summer Term:** A summer term that comes at the end of a school's Scheduled Academic Year.

**Transfer:** For purposes of defining due diligence time frames, a transfer is any action (such as the sale of a loan) that results in a change of the system used to monitor or conduct collection activities on the loan.

**Treasury Bill (T-bill):** A note or bill issued by the U.S. Treasury as legal tender for all debts.

**Treasury Offset:** An interception by the United States Treasury Department's Financial Management Service or a state agency of any payment of applicable federal funds (tax refunds, Social Security benefits, federal retirement benefits, etc.) or state funds otherwise due a borrower who has defaulted on a FFELP loan.

## U

**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 enrolled at an eligible school who:

- Is enrolled in a four- or five-year program that is designed to lead to an undergraduate degree. A student enrolled in a program of any other longer length is considered to be an undergraduate student for only the first four years of that program.
- Has completed a baccalaureate program of study and is subsequently completing state-required teacher certification or recertification coursework.
- Is enrolled in a dual-degree program that allows an individual to complete a bachelor's degree and either a graduate or professional degree within the same program. A student is considered to be an undergraduate student for at least the first three years of a dual-degree program.

**Undue Hardship (Adversary Complaint) Petition:** A motion to have a loan discharged in a bankruptcy case on the grounds of undue hardship. See Subsection 13.8.A.

**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.

## V

**Variable Interest Rate:** An interest rate that changes, usually annually, according to prescribed methods (see Sections 7.4 and 7.5).

**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 Subsection 6.6.A.

## W

**Week of Instruction:** Any period of 7 consecutive days in which the school provides at least one day of regularly scheduled instruction or examinations, or, after the last scheduled day of classes for a term or payment period, at least one day of study for final examinations. Instructional time does not include periods of orientation, counseling, vacation, or homework.

**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 Subsection 10.9.C, and Section H.2.

**Withdrawal Date:** The date the student withdraws, as determined by the school. The requirements that the school must follow for determining the student's withdrawal date depend upon whether the school is required to take attendance. See Section 9.4.

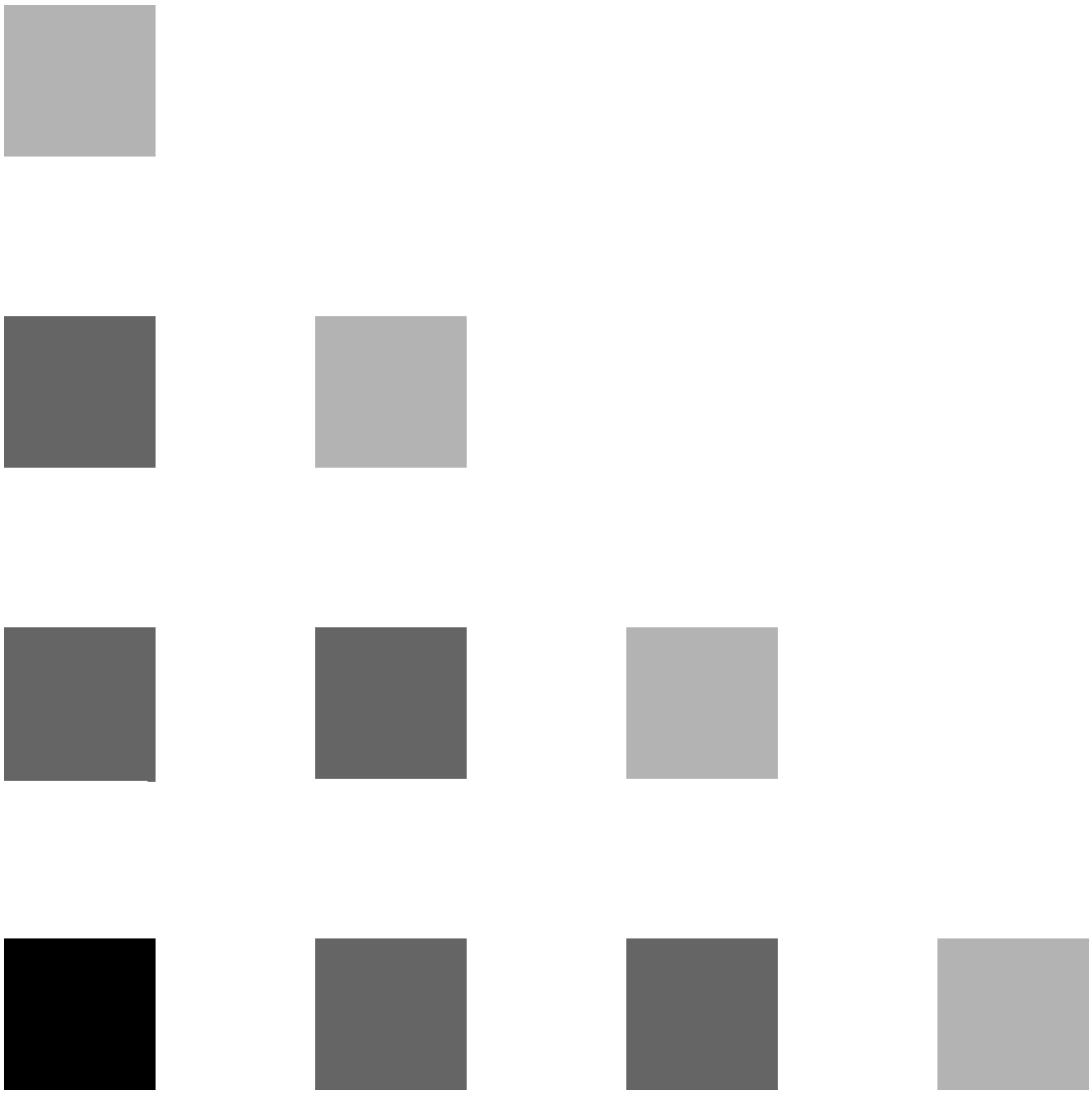
**Write-Off:** A loan amount for which there has been a total cessation of collection activity.

# Tab Locator Page

## Remove this page and replace with tab divider.

# Tab Locator Page

## Remove this page and replace with tab divider.



# H History of the FFELP and the *Common Manual*


| | | |
|---|---|---|
| H.1 | History of the FFELP and the Common Manual | 1 |
| H.2 | History of Excess Interest Rebates and Variable Interest Rate Conversions | 134 |
| H.3 | History of Ability-to-Benefit Provisions | 138 |
| H.3.A | Ability-to-Benefit Requirements | 138 |
| H.3.B | Ability-to-Benefit Provisions | 140 |
| H.4 | History of Statutory and Regulatory Waivers | 142 |
| H.4.A | Waivers for Operations Desert Shield/Desert Storm | 142 |
| H.4.B | HEROES Act Waivers | 142 |
| H.4.C | Higher Education Hurricane Relief Act Waivers | 152 |
| H.4.D | Disaster Waivers | 153 |
| H.4.E | Waiver of Borrower-by-Borrower LLR Designation | 155 |

# Index of History Categories

This appendix contains information on topics pertinent to the history of the FFELP and the *Common Manual.* Under each applicable date in this history, these topics are listed alphabetically by category. Following is an index of the categories under which these topics have been organized.


Ability to benefit
Additional unsubsidized Stafford funding
Academic year
Aggregate loan limit
Annual loan limit
Audit
Authorizations and certifications
Bankruptcy
Blanket guarantee
Borrower dispute
Child-care provider loan forgiveness
Claim filing requirements
Claim payment
Claim repurchase/recall
Claims – returned and refiled
Closed school loan discharge
Cohort default rate
Common forms
Consolidation loans
Consumer credit reporting
Consummated loan
Cost of attendance
Credit balance
Credit bureau reporting
Cure
Data matches
Death discharge
Default
Deferment
Delivering loan funds
Disability discharge (total and permanent)
Disbursements rules
Disclosure requirements
Disclosure requirements – lender
Disclosure requirements – school
Distance Education
Due diligence
Electronic processing requirements
Eligibility – borrower and student
Eligibility – lender
Eligibility – school
Endorser
Enrollment status
Entrance counseling
Estimated financial assistance
Exceeding loan limits
Exceptional performance
Excess interest rebate
Exit counseling
FAFSA
False certification loan discharge
Federal default fee
Federal reporting
Financial aid transcript (FAT)
Financial responsibility standards (school)
Forbearance
Foreign school
Grace period
Guarantee fee
Guarantee transfer
Holder
Inducements
Insurance
Interest payment and capitalization
Interest rates
Interest subsidy
Late delivery
Late disbursement
Leave of absence
Lender fee
Lender of Last Resort
Loan amount
Loan amount – adjustment
Loan certification
Loan forgiveness for service in areas of national need
Loan guarantee
Loan origination
Loan period
Loan repayment for civil legal assistance attorneys
Loan sales and transfers
Loan types
Need analysis
Negotiated rulemaking
Notification – borrower and student
NSLDS
Origination fee
Overaward
Payment application
Payment period
Period of enrollment
PLUS credit check
Post-deferment grace period
Post-withdrawal disbursement
Preferred lender arrangement
Private education loan
Program of Study
Program Participation Agreement
Record retention
Refinancing (PLUS and SLS loans)
Refunds
Rehabilitation of defaulted loan
Reinstatement of Title IV eligibility
Reinsurance
Reissued disbursements
Repayment start
Repayment terms
Return of Title IV funds
Social Security number documentation/reporting
Special allowance
Spouses and Parents of Victims of September 11, 2001, Loan Discharge
Status changes and reporting
Statute of limitations
Summer bridge extension
Teacher loan forgiveness
Third-party servicer
Unpaid refund discharge
Voluntary Flexible Agreement
Withdrawal

# H.1
# History of the FFELP 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. 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.

*Interest subsidy:* The new law provides an in-school interest subsidy of 5%, paid by the federal government for families with annual incomes less than $15,000. A 3% interest subsidy is paid for periods during which the loan is in repayment. Nonsubsidized loans are available for students with annual family incomes of more than $15,000.

## 1967

### July 2, 1967

*Aggregate loan limit:* Aggregate loan limits are increased to $9,000.

*Annual loan limit:* Annual loan limits are increased to $1,500.

### August 10, 1967

*Interest rates:* Interest rates increase to 6% for families earning less than $15,000 in annual income.

*Loan guarantee:* The guarantee amount is increased from 80% to 90% of unpaid principal and interest.

## 1968

### August 3, 1968

*Interest rates:* Interest rates increase from 6% to 7% for families with less than $15,000 annual income.

### October 16, 1968

*Eligibility – lender:* Interstate lenders are permitted to make loans under the Federally Insured Student Loan Program (FISLP).

### December 15, 1968

*Interest subsidy:* Interest subsidy for loans in repayment is eliminated.

## 1969

### August 1, 1969

*Special allowance:* 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:* Interest subsidy is determined based on an evaluation of family income and resources.

*Need analysis:* A needs test is established.

### August 18, 1972

*Interest subsidy:* Interest subsidy is reinstated for students whose families have annual incomes of $15,000 or less.

### October 1, 1972

*Repayment terms:* The maximum repayment period of 63 months is increased to 120 months.

## 1973

### March 1, 1973

*Interest subsidy:* Eligibility for interest subsidy is determined by an evaluation of family income and resources.

*Need analysis:* Need analysis is required again.

### June 1, 1973

*Aggregate loan limit:* Aggregate loan limits increase to $7,500 for undergraduate students and $10,000 for graduate students (including undergraduate aggregates).

*Annual loan limit:* 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.

## 1974

### June 2, 1974

*Eligible borrower:* Undergraduate students enrolled at least half time, but less than full time, are eligible borrowers.

*Interest subsidy:* Eligibility for interest subsidy is returned to students whose families have annual incomes of $15,000 or less.

*Need analysis:* Need analysis is required for families earning more than $15,000 and for loan amounts exceeding $2,000.

## 1976

### March 1, 1976

*Annual loan limit:* Graduate students may receive a student loan of up to $2,500.

*Eligibility – borrower and student:* Graduate students enrolled at least half time, but less than full time, are eligible borrowers.

### October 1, 1976

*Deferment:* "New borrowers" are eligible for a one-year unemployment deferment, which is subsidized if the borrower otherwise qualifies for interest subsidy.

*Disbursement rules:* 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.

*Interest subsidy:* Lenders are permitted to bill for interest subsidy 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.

*Special allowance:* Lenders are permitted to bill for 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

*Need analysis:* 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:* Special allowance is authorized for all loans disbursed between November 8, 1965, and August 1, 1969, for which balances remained outstanding. Special allowance payments for these loans are in addition to payments for other loans previously considered eligible for special allowance.

### May 20, 1977

*Aggregate loan limit:* For loan periods beginning on or after July 1, 1977, aggregate limits are increased to $7,500 for undergraduate borrowing and $15,000 for cumulative graduate and undergraduate borrowing.

*Annual loan limit:* 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.

#### September 30, 1977

*Bankruptcy:* 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:* 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

*Deferment:* The rehabilitation deferment is established for borrowers in rehabilitation training programs for disabled individuals.

*Interest subsidy:* All loans disbursed on or after November 1, 1978, qualify for interest benefits regardless of family income.

*Special allowance:* Special allowance is paid on both the subsidized and nonsubsidized loans.

#### November 6, 1978

*Bankruptcy:* 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

*Special allowance:* 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:* 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:* 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

*Aggregate loan limit:* 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).

*Annual loan limit:* 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.

*Deferment:* 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.

*Grace period:* Loans to "new borrowers" with loan periods beginning on or after January 1, 1981, and applicable interest rates of 9% are eligible for a 6-month grace period.

*Interest rates:* The applicable interest rate is 9% for "new borrowers" with loan periods beginning on or after January 1, 1981. New PLUS and ALAS loans have an applicable interest rate of 9%.

*Loan types:* Parental Loans for Undergraduate Students (PLUS loans) and Auxiliary Loans for Students (ALAS) loans are established.

*Post-deferment grace period:* Loans with a deferment end date on or after January 1, 1981, are eligible for a 6-month post-deferment grace period.

#### August 23, 1981

*Origination fee:* 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 period:* Post-deferment grace periods are eliminated for loans first disbursed on or after October 1, 1981.

*Need analysis:* Need analysis is reinstated for borrowers with annual family incomes exceeding $30,000.

#### October 1, 1981

*Aggregate loan limit:* Aggregate loan limits are $12,500 for undergraduate students and $25,000 for graduate students (including undergraduate loans).

*Annual loan limit:* 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. 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.

*Interest rates:* PLUS/ALAS interest rate increases to 14%.

*Repayment terms:* The minimum monthly payment amount increases from $30 to $50 for loans first disbursed on or after October 1, 1981.

*Special allowance:* 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 one-eighth of one percent.

## 1982

#### November 1, 1982

*Interest rates:* PLUS/ALAS interest rates are reduced to 12% for loans first disbursed on or after November 1, 1982.

## 1983

#### July 24, 1983

*Eligibility – borrower and student:* Students must meet Selective Service Registration requirements to receive Title IV funds on or after July 24, 1983.

#### August 1, 1983

*Eligibility – borrower and student:* 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

*Deferment:* PLUS borrowers with loans first disbursed on or after August 15, 1983, are not eligible for deferment of their loans.

#### September 13, 1983

*Interest rates:* 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

*Origination fee:* 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.

*Special allowance:* Due to the sequester, lenders must collect a reduced special allowance on new loans 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.

*Consolidation loans:* Consolidation loans are authorized to permit a borrower to combine multiple obligations into a single debt.

*Credit bureau reporting:* Credit bureau reporting is required for all lenders and guarantors.

*Disbursement rules:* GSL and ALAS disbursement checks must be mailed directly to the school.

*Default:* The statutory default date is extended from 120 days delinquent to 180 days delinquent.

*Eligibility – borrower and student:* Schools must determine a student's eligibility for Pell grant funding before certifying a GSL application.

*Interest rates:* The interest rate for the newly authorized Consolidation loans 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.

*Lender of Last Resort:* Guarantors must ensure that a Lender of Last Resort Program is available to borrowers in each state.

**May 15, 1986**

*Eligibility – borrower and student:* 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**

*Disbursement rules:* 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.

*Eligibility – borrower and student:* Students may not receive additional Title IV assistance if they have defaulted on a Title IV loan.

*Origination fee:* The origination fee must be deducted proportionately from each disbursement of a GSL loan.

**October 17, 1986**

The Higher Education Amendments of 1986 are signed into law and reauthorize the program through 1991.

*Aggregate loan limit:* The aggregate loan limit for PLUS or SLS loans is $20,000.

*Annual loan limit:* The annual loan limit for PLUS or SLS loans is $4,000.

*Deferment:* Eligibility for an unemployment deferment is extended from 12 to 24 months for GSL, SLS, and PLUS loan borrowers.

*Disbursement rules:* Multiple disbursements are no longer required for SLS loans. GSL 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 period of enrollment, except as necessary to coincide with the start of the next quarter, trimester, or semester. Loans to borrowers attending foreign schools are exempt from multiple disbursement requirements.

*Eligibility – borrower and student:* Parents may borrow PLUS funds for dependent undergraduate or dependent graduate students.

*Exit counseling:* Schools must perform exit counseling for all student borrowers.

*Interest payment and capitalization:* 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.

*Interest rates:* The PLUS/SLS interest rate becomes a variable rate, not to exceed 12%.

*Loan types:* The ALAS Program is replaced with the SLS Program. PLUS and SLS loans are to be administered under separate programs.

*Need analysis:* GSL applications are subject to uniform methodology and need analysis, regardless of family income.

*Refinancing (PLUS and SLS loans):* A borrower may refinance a fixed interest rate PLUS or ALAS/SLS loan that is disbursed prior to July 1, 1987, to obtain a variable interest rate. If the lender denies the borrower the option of refinancing his or her eligible PLUS or SLS loan(s) to secure a variable interest rate, the borrower may apply to another lender for a new loan that pays the loan held by the original lender in full. Under this option, the lender making the new loan must send the proceeds of the new loan to the current holder to retire the borrower's original debt.

*Reinsurance:* Guarantors are required to pay the Department a reinsurance fee on loans guaranteed to help defray the cost of defaults.

*Repayment terms:* The 15-year limit on the repayment term of a GSL loan is eliminated.

#### November 16, 1986

*Special allowance:* Special allowance for loans with periods of enrollment beginning on or after November 16, 1986, is reduced to the T-bill plus 3.25%.

#### December 26, 1986

*Deferment:* 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.

*Delivering loan funds:* Schools may credit a student's loan proceeds to his or her account no more than 21 days before the first day of the period of enrollment for which the funds are intended. Checks may be released to the borrower no more than 10 days before the start of the period of enrollment for which the funds are intended.

*Origination fee:* 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.

*Refunds:* A school must make refunds to students within 30 days of the date the school determines that the student is last enrolled at least half time.

*Special allowance:* The lender must terminate special allowance billing on the earlier of the date that it receives a returned, uncashed disbursement check for the loan or the 120th day after the disbursement date if the disbursement check has not been cashed or the EFT or master check funds have not been released from the school's account to the borrower by that date.

## 1987

#### January 1, 1987

*Aggregate loan limit:* Aggregate loan limits increase to $17,250 for undergraduate borrowing and $54,750 for combined undergraduate and graduate borrowing.

*Annual loan limit:* 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.

#### March 10, 1987

*Bankruptcy:* Lenders must file a bankruptcy claim no more than 30 days after learning that a borrower has filed for bankruptcy protection.

*Disclosure requirements:* Lenders must provide a "Plain English Disclosure" to borrowers before disbursing loan funds for periods of enrollment beginning on or after January 1, 1987.

*Due diligence:* 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.

*Disbursement rules:* 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 rates:* Interest may not be calculated on any loan entering repayment using the Rule of 78s.

#### July 1, 1987

*Deferment:* 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, National Oceanic and Atmospheric Administration (NOAA) Corps deferment, teacher shortage deferment, parental leave deferment, and working mother deferment.

*Eligibility – borrower and student:* 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. 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.

*Guarantee fee:* All loans are subject to a guarantee fee of no more than 3% of the principal balance, collectable by the guarantor.

*Interest rates:* 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.

*Special allowance:* Lenders receive special allowance payments when the T-bill rate plus applicable factor exceeds 12%.

#### October 20, 1987

*Origination fee:* GSL loans are placed under sequester. Origination fees are increased to 5.5%.

*Special allowance:* Due to the sequester, special allowance yields are reduced for new loans for the first four reporting quarters following the one in which the loan was first disbursed.

#### December 26, 1987

*Origination fee:* 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

*Cure:* The Department publishes cure procedures for violations of due diligence or timely filing provisions.

#### July 1, 1988

*Excess interest rebate:* For loans accruing interest at the new "split 8%/10%" interest rates, 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.

*Interest rates:* 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.

*Interest subsidy:* Lenders may no longer use the average quarterly balance in billing for interest benefits.

*Loan types:* The GSL program is renamed the Stafford Loan Program.

*Special allowance:* Lenders may no longer use the average quarterly balance in billing for special allowance.

#### July 18, 1988

*Eligibility – borrower and student:* 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

*Eligibility – borrower and student:* 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

*Disbursement rules:* 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.

*Repayment start:* SLS loan repayment begins no more than 60 days after the date the loan is fully disbursed.

## 1989

#### July 20, 1989

*Delivering loan funds:* 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.

*Refunds:* A school must make refunds within 60 days of the date the school determines that the student has dropped to less-than-half-time attendance.

### August 24, 1989

*Entrance counseling:* Schools must provide entrance counseling for all first-time borrowers.

### October 1, 1989

*Origination fee:* 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.

*Special allowance:* Due to the sequester, special allowance is reduced for new loans 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.

*Refunds:* Schools with cohort 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.

*Delivering loan funds:* 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.

*Late delivery:* For loans delivered on or after December 19, 1989, for periods of enrollment beginning on or after January 1, 1990, a school may not deliver a late first disbursement of SLS loan proceeds if the student did not complete the first 30 days of the period of enrollment for which the funds are intended.

*Late disbursement:* 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

*Annual loan limit:* Annual loan limits for SLS loans are reduced for first-time borrowers. 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.

*Deferment:* Individuals serving in medical internships and residencies, except those serving in dental programs, are ineligible for in-school deferments.

*Disbursement rules:* Lenders must delay the disbursement of SLS funds. 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.

*Eligibility – borrower and student:* Borrowers may no longer borrow Stafford or SLS loans for enrollment in an internship or residency program.

*Federal reporting:* 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.

*Forbearance:* Lenders must grant forbearance to interns and residents.

*Loan certification:* Schools with cohort default rates of 30% or more may no longer certify SLS loan applications.

### March 1, 1990

*Disbursement rules:* 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

*Refunds:* 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.

*Bankruptcy:* 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.

*Due diligence:* 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.

*Loan period:* The minimum loan period for SLS loans is reduced to 7 months or the length of the school's academic year, whichever is longer.

## 1991

### January 1, 1991

*Delivering loan funds:* 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.

*Eligibility – borrower and student:* 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.

*Post-deferment grace period:* 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.

*Statute of limitations:* The statute of limitations for enforcement of guaranteed student loans is eliminated.

### April 9, 1991

*Deferment:* For active duty status in connection with a military mobilization, the lender is 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 Operation Desert Shield or Desert Storm, the lender is permitted to grant the deferment retroactive to the date the borrower was mobilized—even if that results in backdating the deferment more than 6 months. Furthermore, if a borrower has used the entire 36-month Armed Forces deferment eligibility before being mobilized, the borrower or a close family member has the option of requesting an emergency administrative forbearance.

### May 28, 1991

*Bankruptcy:* 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

*Eligibility – school:* 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.

*Aggregate loan limit:* Aggregate loan limits on Stafford loans are revised to $23,000 for undergraduates and $65,500 for graduate students (including undergraduate loans). SLS 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.

*Annual loan limit:* 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. Annual loan limits for SLS loans of $4,000 for first- and second-year full-time enrollment must be prorated for some students. These provisions became effective October 1, 1992.

*Audit:* 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.

*Closed school loan discharge:* Loans may be forgiven if the school for which the borrower obtained the loan closed before the borrower's program of study was complete.

*Common forms:* The Department, in cooperation with industry participants, is required to develop common loan applications and promissory notes, deferment forms, and reporting formats.

*Exceptional performance:* 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).

*Excess interest rebates:* 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.

*False certification:* Loans may be forgiven if the school falsely certified the loan application.

*Forbearance:* 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.

*Interest subsidy:* 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.

*Loan sales or transfers:* 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 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.

*Loan types:* 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. Congress authorizes a Federal Direct Loan Demonstration Program as a pilot program for 250 schools.

*Negotiated rulemaking:* The Department is required to develop regulations from these amendments in a negotiated rulemaking process with the student loan industry and other interested participants.

*PLUS credit check:* 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.

*Rehabilitation of defaulted loans:* 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. There are no federal restrictions that prohibit a loan from being rehabilitated more than once.

*Reinstatement of Title IV eligibility:* 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 defaulted loan.

*Repayment terms:* 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.

*Third-party servicer:* The Department is authorized to regulate third-party servicers.

### October 1, 1992

*Consummated loan:* For subsidized Stafford loans first disbursed on or after October 1, 1992, lenders may not bill the Department for interest 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.

*Delivering loan funds:* The school must confirm the eligibility of the dependent student for whom the parent is borrowing before delivering PLUS loan funds.

*Disbursement rules:* 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.

*Interest rates:* 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%.

*Loan types:* 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.

*Origination fee:* 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.

## 1993

### January 1, 1993

*Consolidation loans:* 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.

*Repayment terms:* Lenders must offer Consolidation loan borrowers the option of repaying their loans with graduated or income-sensitive repayment provisions.

**February 1, 1993**

*Special allowance:* Provisions for loans made or purchased with tax-exempt obligations are modified.

**April 16, 1993**

*Common forms:* The Department issues a Dear Guaranty Agency Director Letter announcing the approval of the common application and promissory note that combines the Federal Stafford and Federal Unsubsidized Stafford or Federal SLS loan into a single form. Schools are required to use the common application and promissory note for loans certified on or after January 1, 1994.

**July 1, 1993**

*Aggregate loan limit:* Aggregate loan limits for PLUS loans are effectively negated.

*Annual loan limit:* 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. SLS 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.

*Deferment:* 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.

*Eligibility – schools:* 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%.

*Repayment terms:* 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.

*Interest subsidy:* 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.

*Loan types:* The Federal Direct Loan Demonstration Program authorized under the Higher Education Amendments of 1992 is replaced with an expanded pilot. This program is intended to "phase-in" Direct loans from 1994 to 1998.

**October 1, 1993**

*Annual loan limit:* Stafford annual loan limits are increased to $8,500 for graduate and professional students.

*Disbursement rules:* PLUS loans first disbursed on or after October 1, 1993, must be multiply disbursed under the same conditions as SLS loans.

*Lender fee:* 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.

*Loan guarantee:* 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.

*Reinsurance:* The reinsurance fee paid by guarantors to the Department is eliminated for loans first disbursed on or after October 1, 1993. Loans first disbursed on or after October 1, 1993, are reinsured at a maximum of 98% of the principal and interest filed with the Department by the guarantor.

# 1994

### April 29, 1994

*Closed school loan discharge:* A borrower may be eligible for a closed school loan discharge as long as the borrower did not transfer any portion of the academic credits or clock hours earned at the closed school through a teach-out at another school.

### July 1, 1994

*Additional unsubsidized Stafford funding:* If a school certifies a PLUS loan for an eligible parent and the parent dies during the loan period, the parent's death creates a sufficient "exceptional circumstance" to permit the school to certify additional unsubsidized Stafford loan funds for the student for the current academic year, not to exceed the student's additional unsubsidized Stafford loan limit. Any eligible PLUS loan proceeds delivered prior to the date of the parent borrower's death must be included in the estimated financial assistance used in determining the student's eligibility for the additional unsubsidized Stafford loan funds.

*Annual loan limit:* 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 Federal Stafford Loan Program.

*Consolidation loans:* Consolidation loans are no longer subject to a minimum loan amount.

*Interest rates:* 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. Interest rates for PLUS loans are revised to the T-bill rate plus 3.1%, capped at 9%. 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.

*Leave of absence:* Students in an approved leave of absence are considered to be withdrawn for purposes of calculating refunds and determining continuous in-school status. For deferment purposes, students are considered to be enrolled during the leave.

*Loan types:* 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.

*Origination fee:* 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.

*Repayment terms:* Repayment schedules for loans with original balances of less than $7,500 may not exceed 10 years.

### October 20, 1994

President Clinton signs into law the Improving America's School Act of 1994 (P.L. 103-382), which allows Nursing Student Loans to be included in a Consolidation loan and changes the record retention requirements for schools.

*Consolidation loans:* Borrowers are able to consolidate Nursing Student Loans into a Consolidation loan that is made on or after October 20, 1994. A borrower may not retroactively add those loans to a Consolidation loan made before October 20, 1994.

*Record retention:* 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. The school must establish and maintain records

required under 34 CFR Part 668 (General Provisions) and as required for each Title IV program. These requirements are effective for any record that meets the 3-year retention requirement on or after October 20, 1994.

## 1995

### March 1995

*Audit:* 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

*Academic year:* A school must use the same academic year definition for all students enrolled in a particular program. Effective with the publication date of the 95-96 FSA Handbook.

*Bankruptcy:* 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.

*Deferment:* Eligibility criteria for the economic hardship deferment are revised. 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.

*Eligibility – school:* When a school begins participation in any Title IV program, the school is required to send at least two representatives, including both its president or chief executive officer (CEO) and financial aid administrator (FAA), to the Department's Fundamentals of Title IV Administration Training workshop. Also, if a school changes ownership, structure, or governance, its representatives must attend the training. The training must be completed up to 12 months prior to but no later than 12 months after the school executes its Program Participation Agreement (PPA) or experiences a change in ownership, structure, or governance.

The CEO may designate another school executive-level officer to attend the training in lieu of the CEO. The school may request from the Department a waiver of the training requirement for the FAA and/or the CEO. The Department may grant or deny the waiver for the required individual, require another official to take the training, or require alternative training.

A school seeking to participate for the first time in a Title IV program must not have a withdrawal rate during its latest completed award year that exceeds 33% of its regular, undergraduate students. The school must include in its withdrawal calculation every regular student who was enrolled during the latest completed award year except a student who, during that period, meets established criteria.

*Exceptional performance:* 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 the claims.

*Interest rates:* Interest 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.

*Leave of absence:* 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.

*PLUS credit check:* A PLUS loan applicant with adverse credit may obtain an endorser without adverse credit to receive a PLUS loan. A PLUS loan applicant is considered to have adverse credit if, among other conditions, the applicant had any debt discharged in bankruptcy during the 5-year period before the date of the applicant's credit report.

*Origination fee:* Loans on which origination fees are not paid promptly by the originating lender are deemed to be non-reinsured. The lender or holder may not collect interest benefits or special allowance on the loans.

*Repayment start:* 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.

*Special allowance:* 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.

### September 30, 1995

*Audit:* 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 be 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

### March 1, 1996

DCL 96-G-287/96-L-186 lifts the Department's waiver of enforcement of the lender due diligence provisions in §682.411, published in the December 18, 1992, *Federal Register* and clarifies policy changes pertaining to lender due diligence.

### April 1, 1996

The *Common Manual—Unified Student Loan Policy*, which contains both federal and guarantor policies, is adopted by 23 guarantors. 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 National Student Loan Program (NSLP), 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 TG and the Oregon Student Assistance Commission 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.

*Aggregate loan limit:* There is no aggregate limit for a PLUS loan. Effective retroactive to the implementation of the *Common Manual*.

*Annual loan limit:* There is no annual limit for a PLUS loan. A PLUS Loan may not exceed the cost of attendance minus estimated financial assistance for the student. Effective retroactive to the implementation of the *Common Manual*.

*Disclosure requirements – school:* By October 1 of each year, a school must publish and distribute to all of its enrolled students and current employees an annual security report. For annual security report provisions, this provision is effective retroactive to the implementation of the *Common Manual.*

*Due diligence:* A diligent effort is one successful contact or two attempts to contact the borrower or endorser by phone. Each effort consists of one successful contact or two attempts to contact the borrower or endorser on different days and at different times. Effective retroactive to the implementation of the *Common Manual*.

*Notification – borrower and student:* The school is no longer required to retain a signed consumer information disclosure in the student's file. Effective retroactive to the implementation of the *Common Manual*.

By October 1 of each year, a school must publish and distribute to all of its enrolled students and current employees an annual security report. If the school distributes its annual security report by posting it on an *Inter*net or *Intra*net Website, the school must notify its enrolled students and current employees of the exact electronic address at which the report is posted, briefly describe the report, and state that the school must provide a paper copy of the report upon request.

The school must notify prospective students and prospective employees about the availability of the annual security report, briefly describe its content and provide an opportunity to request a copy. If a school makes the annual security report available by posting it on an *Inter*net Website, the school must include in its notice to prospective students and prospective employees the exact electronic address at which the report is posted, briefly describe the report, and state that the school will provide a paper copy of the report upon request. A school must not use an *Intra*net Website to make student consumer information available to a prospective student or prospective employee.

The annual security report must, at minimum, include all of the following:

- A statement of the school's policies for reporting criminal actions or other emergencies that occur on campus, including the school's policies for responding to these reports.
- A statement of the school's current policies concerning security of and access to campus facilities.
- A statement of the school's current policies on the authority of security personnel and their relationship with state and federal law enforcement agencies.
- A description of the type and frequency of programs designed to inform students and employees about campus security procedures and practices.
- A description of programs designed to inform students and employees about crime prevention.
- A statement of policy concerning the monitoring and recording, through law enforcement, of criminal activity in which students engage at off-campus locations of student organizations that are officially recognized by the school.
- A statement of policy regarding the possession, use, and sale of illegal drugs and the enforcement of state and federal drug laws.
- A description of any drug- and alcohol-abuse educational programs.
- A statement of policy regarding the school's campus sexual-assault prevention programs, and procedures to follow when a sex offense occurs.
- A statement advising the campus community where sex offender registration information may be obtained.
- The three most recent calendar years of statistics on campus crimes that are reported to local police agencies or to a campus security authority.
- The school's emergency evacuation response procedures.
- If a school provides on-campus housing facilities, its missing student notification policies and procedures.

A school that provides on-campus housing facilities may, but is not required to, publish its annual fire safety report in its annual security report. If a school that must disclose an annual fire safety report chooses to include it in its annual security report, the school must ensure that the report title clearly states that the report contains both the annual security report and the annual fire safety report. Effective retroactive to the implementation of the *Common Manual.*

*Overaward:* An overaward occurs when any amount of a student's need-based aid exceeds the student's financial need, or when the amount of the student's estimated financial assistance (EFA), including need-based aid, exceeds the student's cost of attendance (COA). If the school determines that an overaward exists, the school must contact the lender or guarantor to request an adjustment of any remaining loan disbursements. If all disbursements of a loan have been delivered to the student before the overaward occurs, no adjustments are required. However, the school may be required to adjust campus-based aid or

other aid under its control to offset the borrower's overaward. A school never adjusts a Pell grant to take into account other forms of aid. Effective retroactive to the implementation of the Common Manual.

**July 1, 1996**

*Ability to benefit:* 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. This provision is effective for loan applications certified for the 1996–97 award year and thereafter.

*Aggregate loan limit:* For purposes of determining if a borrower has exceeded the aggregate loan limit, a school or lender may make certain assumptions about the underlying Stafford loans (subsidized vs. unsubsidized) in a Consolidation loan.

*Annual loan limit:* For loan periods beginning on or after July 1, 1996, certain health profession students who attend eligible HEAL participating schools and who have not borrowed under the HEAL program prior to October 1, 1995, are eligible to borrow unsubsidized Stafford loans in excess of annual and aggregate limits. To be eligible, a school must have disbursed HEAL loans in federal fiscal year 1995 (October 1, 1994, through September 30, 1995) and must not have subsequently withdrawn from the HEAL program.

*Bankruptcy:* If a borrower files for bankruptcy, a lender should not make any disbursement on any loan for which the borrower applied and that is 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.

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. The lender 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 bankruptcy action was reversed or dismissed. These changes apply to bankruptcy notifications received by the lender on or after July 1, 1996.

*Claim payment:* For a non-default 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.

*Claims – returned and refiled:* 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.

*Cohort default rates:* The defaulted loan of a student who attended and borrowed at more than one school is attributed to the respective schools 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 chief executive officer (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%.

*Consolidation loans:* 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.

*Credit bureau reporting:* 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.

*Cure:* These changes are enforced for loans on which the first day of delinquency on the "oldest outstanding due date" is after July 1, 1996.

- 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.

- The lender must complete the intensive collection activities (ICA)/location cure procedure (that is, the default claim must have been filed) by the 3-year deadline.

*Data matches:* The Department will perform a data match with the Social Security Administration to confirm claims of U.S. citizenship made on the FAFSA. The Department also will conduct a data match with the Selective Service to verify a male student's registration status. These provisions are applicable to loans certified for periods of enrollment beginning on or after July 1, 1996. For loan applications certified for the 1996–97 award year and after, the Department will conduct a data match with the Social Security Administration to verify the Social Security number a student provides on the FAFSA.

*Deferment:* 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.

*Delivering loan funds:* 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.

*Disability discharge (total and permanent):* 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.

*Disclosures:* Beginning with the 1996–97 award year schools must disclose completion/graduation and transfer-out rates to current and prospective students. 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.

*Due diligence:* 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.

The following 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.

- 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). 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.
- Preempts any state law conflicting with lender collection requirements.
- Defines "made-up" collection activity.
- 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.
- For delinquent borrowers, a lender's skip tracing techniques must include an inquiry to directory assistance or a comparable service.
- A due diligence gap starts the day after the date the lender receives a new correct telephone number for a delinquent borrower.

*Eligibility – borrower and student:* For 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.
- 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.
- 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 and the student's family must be otherwise unable to provide the expected family contribution in order for a dependent student to be eligible for an additional unsubsidized Stafford loan; however, if any of the student's parents subsequently becomes eligible for a PLUS loan, undelivered disbursements of the additional unsubsidized Stafford loan must be canceled.

For loan applications certified for the 1996–97 award year and after, 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.

For loan applications certified on or after July 1, 1996, a student borrower seeking a Stafford loan or a student for whom a PLUS loan is being obtained must not have property subject to a judgment lien for a debt owed to the United States.

A student may self-certify that he or she has at least a high school diploma or the recognized equivalent of a high school diploma, or has completed a secondary school education in a home-schooled setting.

A student is required to update his or her dependency status if it changes during the award year regardless of whether the student is selected for verification. The only exception is if the student's dependency status changes as the result of a change in marital status. If the student's last remaining parent dies after the student submits the FAFSA, the student must update his or her dependency status on the Student Aid Report (SAR) and report income and assets as an independent student.

A borrower is ineligible for a FFELP loan if the borrower has had a prior FFELP loan partially or totally written off by a guarantor. To become eligible to receive a new FFELP loan, a borrower must reaffirm the written-off loan, provide confirmation of that reaffirmation to the school, and be otherwise eligible for the loan. A borrower whose prior FFELP loan has been partially or totally written off by a lender is not required to reaffirm the written-off loan as a condition of eligibility.

*Eligibility – school:* 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%.

*Endorser:* 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.

*FAFSA:* The Statement of Educational Purpose has been added to the FAFSA.

*Forbearance:* A lender may apply an administrative forbearance if a borrower requests repayment alignment of his or her Stafford and SLS loans. This change applies to loans that are eligible for repayment alignment 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.

*Foreign school:* Foreign schools must comply with federal regulations, unless exempted by the Department.

*Guarantee fee:* A lender must refund a prorated portion of the guarantee fee 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.

*Late disbursement:* 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.

*Loan amount:* For an academic year that meets the Title IV academic year requirements but that is shorter than 9 months in length, the school is not required to prorate a loan certified for a health profession student, but may certify the full 9-month limit if the student is otherwise eligible. Effective for loans certified by the school for eligible students in certain eligible health professions programs on or after July 1, 1996.

*Loan amount:* 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. This change is applicable to loans certified for periods of enrollment beginning on or after July 1, 1996.

*Loan certification:* For loan applications certified on or after July 1, 1996:

- A school may certify a loan for the entire academic year in which a borrower regains Title IV eligibility after default.
- A school may certify a PLUS application before the FAT or equivalent data is received.

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.

After a school has certified a Stafford loan, the loan certification cannot be changed to reflect a change in dependency status. However, the school may use the updated status to recalculate the expected family contribution and certify additional loans if the student qualifies. The school is liable for any overpayment of Stafford loan funds due to recalculation errors.

*Notices and authorizations:* 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.

*NSLDS:* The Department issues DCL GEN-96-13 to announce the availability of the National Student Loan Data System (NSLDS) to meet the regulatory requirements for obtaining financial aid transcript (FAT) information for purposes of determining student eligibility for Federal Title IV student assistance. Effective with the implementation of NSLDS reporting, applicable procedures may be included by the guarantor in a school program review. Beginning with the 1996–97 award year, schools may access the NSLDS to obtain financial aid transcript data.

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 after.

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 mid-year 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 after.

*Origination fee:* A lender must refund a prorated portion of the 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.

*Payment application:* 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.

*Record retention:* Schools must retain any records related to unresolved audits that begin or are in progress on or after July 1, 1996.

*Refunds:* 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.

*Repayment start date:* A 30-day extension of the first payment due date for a SLS loan is permitted 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. The 30-day extension had previously only applied to Stafford loans. This change applies to loans that enter or reenter repayment on or after July 1, 1996.

Changes codify the DCL 88-G-138 rule to set the first due date within 45 days or within 75 days for late notification or early withdrawal.

*Repayment terms:* 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.

*Social Security number documentation/reporting:* States that when the school becomes aware of a discrepancy with a student's or parent borrower's Social Security number (SSN), date of birth, or first name, the school must attempt to obtain documentation of the correct SSN, date of birth, or first name. The school must notify the guarantor of any change made to the SSN, date of birth, or first name as a result of obtaining documentation, and must notify the lender of any change to the SSN. Revised policy also states that if the school is unable to obtain a copy of an acceptable source document to resolve the discrepancy of an SSN, it must notify both the lender and guarantor. The school must

also instruct the lender to cease disbursement, and the school may not deliver FFELP funds to the student until the school determines the correct SSN. Effective July 1, 1996.

*Status changes and reporting:* 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.

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.

**August 22, 1996**

*Eligibility – borrower and student:* Noncitizen eligibility requirements are modified based on the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (effective August 22, 1996). Further guidance was subsequently provided by the Department of Education 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.

*Delivering loan funds:* 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**

*Bankruptcy:* 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.

*Consolidation loans:* 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.

*NSLDS:* The Department issues DCL GEN-96-17/96-L-189/96-G-291 that describes the implementation of the Student Status Confirmation Report (SSCR) function of the National Student Loan Data System (NSLDS). The guarantor is no longer responsible for the distribution and collection of SSCRs once the school receives a letter from the Department confirming the school's successful SSCR testing with the NSLDS. The Department, via the NSLDS, is responsible for ensuring that SSCR information is distributed to the appropriate guarantor and, in some cases, lenders. This change is effective on and after the date the school receives a letter from the Department indicating that the school has successfully tested its SSCR process through the NSLDS.

*Status changes and reporting:* 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.

Enrollment information must be reported whenever the enrollment status for an individual student changes. The enrollment status changes that must be reported include any change that the school is required to report through enrollment reporting. Examples of enrollment changes that a school is required to report include a change from full-time to half-time status, a change from half-time to less-than-half-time status, a withdrawal, a graduation, or an

approved leave of absence that complies with Title IV requirements. If a student's enrollment status changes and the school does not expect its NSLDS enrollment reporting to be completed within the next 60 days, the school must submit an ad hoc report within 30 days. These changes apply to school enrollment reporting beginning in September 1996.

*Reinstatement of Title IV eligibility:* 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.

#### November 1996

*Audit:* 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

*Audit:* 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

*Annual loan limit:* The criteria for determining annual loan limits for students taking preparatory coursework are revised:

- 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

*Due diligence:* 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.

*Endorser:* 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.

### March 1, 1997

*Interest rates:* 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.

*NSLDS:* 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.

A school may be required to report a change in the student's enrollment status that affects the grace period, repayment responsibility, or deferment privileges of a borrower through an ad hoc report. An ad hoc report must be submitted within 30 days unless the school expects to submit a Submittal File within the next 60 days.

*Reinstatement of Title IV eligibility:* 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.

*Repayment start:* For a Stafford loan converted to repayment on or after March 1,1997, the lender must use the day-specific method for converting the loan to repayment.

*Social Security Number documentation/reporting:* 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.

If a school becomes aware of any Social Security number (SSN) change, the school is expected to verify the correct SSN by obtaining a copy of an acceptable source document from the following list:

- 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 state-issued identification card on which the SSN is listed.

Changes to a student's SSN must be reported to the guarantor through NSLDS using the SSCR or an equivalent process. If the change is to a parent borrower's SSN, the school must continue to notify the guarantor directly. If the guarantor requires the supporting documentation for any SSN change, the school must provide it. Schools may contact individual guarantors for more information on procedures for reporting SSN changes. This change is effective for student SSN changes identified by a school on or after March 1, 1997.

### April 1, 1997

*Closed school loan discharge:* If a closed school 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.

*Eligibility – borrower and student:* A baptismal certificate or voter registration card may not be used as acceptable documents for secondary confirmation of a student's or parent's citizenship. This applies to citizenship verifications requested by the school on or after April 1, 1997.

*False certification loan discharge:* If a 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.

*Forbearance:* 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

*Bankruptcy:* 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.

*Consolidation loans:* 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.

*Status changes and reporting:* A lender must not adjust the borrower's anticipated graduation date (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. The lender may 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.

### May 31, 1997

*Audit:* Delays in the publication of the servicer audit guide resulted in the Department 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.

If a lender's servicer had an independent audit of its servicing functions performed for fiscal year 1995 and 1996 to support the lender audit requirement, the servicer may submit those audits to the Department as meeting its servicer audit requirement for those fiscal years, provided that those audits meet certain standards. These changes reflect guidance given in DCL (DCL) LS-97-01 and the "Audit Guide: Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program," published December 1996.

**June 1, 1997**

*Eligibility – borrower and student:* Effective for loans certified by the school on or after June 1, 1997, independent undergraduate borrowers, dependent borrowers whose parents are unable to borrow PLUS loans, and graduate and professional student borrowers may continue to borrow up to their individually applicable subsidized and unsubsidized aggregate loan limits, regardless of the "base" or "additional" unsubsidized loan amounts borrowed. Special calculations are required if a student's status changes from independent to dependent or if a dependent student borrower's parent, who initially was unable to borrow a PLUS loan, is later determined eligible. In these cases, the school must calculate the student's remaining aggregate loan eligibility by totaling only those portions of loans that represent the student's "base" Stafford loan amounts. These changes reflect guidance given in DCL GEN-97-3.

**July 1, 1997**

Final regulations on regulatory relief, record retention, conflict of interest, guarantor and lender due diligence, and cash management take effect.

*Audit:* 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 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.

*Authorizations and certifications:* 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.

*Consolidation loans:* 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.

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.

*Credit balance:* Requirements for delivering of credit balances are defined effective for loan periods on or after July 1, 1997. If a student dies and there is a Title IV credit balance on his or her account, the school must eliminate the credit balance by paying outstanding authorized school charges, repaying any Title IV grant overpayments that the student owes for previous withdrawals, and/or returning any remaining credit balance to the Title IV programs.

*Delivering loan funds:* 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. For EFT or master check proceeds, the school must deliver the funds directly to the student, or credit the student's account at the school within 10 business days after the school's receipt of the proceeds.

- 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.

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 period of enrollment.
- 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.

*Due diligence:* 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.

*Electronic processing requirements:* 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.

*Late disbursement:* Late disbursement by the lender and late delivery by the school is defined for students who become ineligible under 34 CFR 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.

*Payment period:* 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" is 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.

*Record retention:* A lender is permitted to store records—except for the promissory note—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 imaged media formats capable of reproducing an accurate, legible, and complete copy in approximately the same size as the original document. This change is effective for records retained on or after July 1, 1997.

The Department has consolidated and clarified existing school record retention rules to reduce the administrative burden. 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 academic progress (SAP), 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 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.

*Refunds:* 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 period of enrollment 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.

*Reissued disbursements:* 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.

*Status changes and reporting:* 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.

### 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

*Consolidation loans:* 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

*Electronic processing requirements:* 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

*Deferment:* 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.

*Endorser:* 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 the Emergency Student Loan Consolidation Act (ESLCA) of 1997 (P.L. 105-78).

*Consolidation loans:* 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.

- **Non-discrimination in Making Federal Consolidation loans**

  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.

Subsidized, unsubsidized, and HEAL portions of a single Consolidation loan may appear as separate records in the lender's system but the lender must ensure that the Consolidation loan is administered as a single loan. These provisions are effective for *all* Consolidation loan applications received by the consolidating lender on or after November 13, 1997.

*Due diligence:* A lender administering a Consolidation loan with subsidized, unsubsidized, and HEAL portions must ensure that due diligence is performed at a loan level such that all portions of a single loan default on the same date. Effective for Consolidation loan applications received by the lender on or after November 13, 1997.

*Interest rates:* For Federal Consolidation loans for which applications are received by the consolidating lender on or after November 13, 1997, 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 30th, 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.

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 subsidy:* Effective for all Consolidation loan applications received by the consolidating lender on or after November 13, 1997, 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.

### November 25, 1997

*Financial responsibility standards – school:* 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

*Common forms:* 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

*Aggregate loan limit:* 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.

*Deferment:* 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.

*Due diligence:* 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.

*Electronic processing requirements:* 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).

*Forbearance:* 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 delinquent 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.

*Loan amount – adjustment:* 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.

*Record retention:* 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.

**March 1998**

*Audit:* 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.

**May 15, 1998**

*Annual loan limit:* For loan periods beginning on or after May 15, 1998, the absence of borrowing under the HEAL program prior to October 1, 1995, was eliminated as an eligibility requirement for certain health profession students attending HEAL participating schools to be considered for unsubsidized Stafford loans exceeding standard annual and aggregate loan limits.

**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.

*Interest rates: The following interest rate formulas for Stafford and PLUS loans first disbursed on or after July 1, 1998, were not implemented as a result of this legislation:*

- 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.

*Special allowance: The following special allowance formulas for Stafford and PLUS loans first disbursed on or after July 1, 1998, were not implemented as a result of this legislation:*

- 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**

*Consolidation loans:* Certain underpayment and overpayment tolerances apply to the aggregate eligible balance of principal, interest, fees, and collection costs when a borrower consolidates his or her federal student loans under the Direct Consolidation Loan Program.

The underpayment and overpayment tolerance amounts apply to the total of all of the borrower's loans by loan program type (subsidized Stafford loans, unsubsidized Stafford loans, PLUS loans, and Federal Consolidation loans).

If a loan holder receives a payoff that is:

- Less than the amount needed to pay in full a borrower's underlying loan(s), the loan holder may apply its own policy for write-off and may apply to the Direct Loan Consolidation Center for any underpayment amount that exceeds the loan holder's policy. Whether the balance is written off or the loan holder requests the additional funds from the Direct Loan Consolidation Center, loan holders may not bill the borrower for the underpayment amount and in both instances, the loan holder must notify the borrower that the loan(s) is paid in full.
- More than the amount needed to pay in full a borrower's underlying loan(s) and that overpayment amount is *less than $10.00*, the loan holder may retain the overpayment.

- More than the amount needed to pay in full a borrower's underlying loan(s) and that overpayment amount is *$10.00 or more*, the loan holder must promptly return the full overpayment amount to the Direct Loan Consolidation Center.

All requests for funds and returns of funds to the Direct Loan Consolidation Center must be made promptly and must include identifiers for each borrower and the specific loan type(s). Effective for underpayments and overpayments received by the loan holder from the Direct Consolidation Loan Program on or after July 1, 1998.

*Cure:* 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.

*Disability discharge (total and permanent):* 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.

*Disclosure requirements:* The Department of Education removed the interest rate formula for Stafford and PLUS loans first disbursed on or after July 1, 1998, from the Borrower's Rights and Responsibilities section of the common Stafford and PLUS loan application materials. Lenders are now required to provide the actual interest rate, *including information on the rate's calculation*, in the initial disclosure to the borrower at or before the time of the first disbursement of a Stafford or PLUS loan. This change is enforced for Stafford and PLUS loans first disbursed on or after January 1, 1999, unless implemented earlier.

*Electronic processing requirements:* All participating institutions must have access to the Department's Information for Financial Aid Professionals Website (www.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.

*Eligibility – borrower and student:* 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.

*Financial responsibility standards – school:* 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.

- 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 §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.

*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.

*Interest rates:* 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 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. 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.

*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.

*Payment application:* 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.

*Refunds:* 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.

*Special allowance:* 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.

Variable-rate PLUS or SLS loans first disbursed before July 1, 1994, and variable-rate PLUS loans first disbursed on or after July 1, 1998, are 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 interest rate for each July 1 to June 30 period, as calculated prior to applying the interest rate maximum (or cap), exceeds the maximum interest rate on the loan.

This change, effective for PLUS loans first disbursed on or after July 1, 1998, incorporates the provisions of the Final Rule changes published in the *Federal Register* on November 1, 1999, and subsequent amendments to the Higher Education Act resulting from the Ticket to Work and Work Incentives Improvement Act of 1999.

### August 5, 1998

*Deferment:* 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

*Common forms:* The Department released DCL ANN-98-10, which introduced the Master Promissory Note (MPN) for the Federal Family Education Loan Program.

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.

*Due diligence:*

- **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.

  – 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.

- **Final Demand Letter**

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 Subsections 12.3.E and 12.3.F) and the borrower is 151 days or more delinquent (211 days or more delinquent for loans payable less frequently than monthly).

These changes are effective for invalid address notifications received by the lender on or after September 1, 1998, unless implemented earlier by the guarantor.

- **Preclaims**

  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. Please refer to additional CCI information under the *August 19, 1999* entry in this appendix.

### October 1, 1998

*Annual loan limit:* The specific prorated subsidized Stafford loan limits of $1,750, $875, and $0, and the specific prorated unsubsidized Stafford loan limits of $2,500, $1,500, and $0, are no longer applicable to first- and second-year undergraduate students whose program, or remainder of the program, is less than one academic year. The prorated limits for these students are 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.

*Audit:* 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. On October 1, 1998, any lender that made or held more than $5 million in FFELP loans during the fiscal year being audited is required to submit a compliance audit report to the Department no later than 6 months after the close of the audit period—regardless of whether the report identifies findings of noncompliance. This change is enforced as determined by the Department.

*Blanket guarantee:* A blanket certificate of loan guarantee (blanket guarantee) permits a lender to make Stafford and PLUS loans to eligible borrowers without receiving prior approval from the guarantor. Lenders may contact individual guarantors for information on the availability of, and participation in, a blanket guarantee program. This change is effective for loans originated under a Blanket Certificate of Loan Guarantee approved by the Department on or after October 1, 1998.

*Cohort default rates:* 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.

- 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.

- 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.

*Consolidation loans:* 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:

- 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).

- 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 judgment 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.

Borrowers 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.

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 0.62% per annum of the unpaid principal and accrued interest of the loans.

*Cost of attendance:* Effective for loans certified by the school for periods of enrollment beginning on or after October 1, 1998, the specific minimum allowances to be used for the room and board component of the cost of attendance (COA) were removed. Schools are also now authorized to include a reasonable allowance for the documented rental or purchase of a personal computer. Additionally, the COA for students receiving instruction by telecommunications may include the documented cost of renting or purchasing equipment required for them to complete their educational programs. Previously, the COA for telecommunication students was generally limited to tuition and fees. These changes reflect provisions of the Higher Education Amendments of 1998.

*Deferment:* A new borrower from July 1, 1987, to June 30, 1993, is no longer required to obtain a new loan for a half-time period of enrollment 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 documentation indicating that the borrower is enrolled on at least a half-time basis. The lender may use documentation from an appropriate source (e.g., the borrower, school, guarantor, National Student Clearinghouse, or NSLDS)—provided the documentation supplies sufficient information to ensure that the borrower meets all eligibility criteria. A borrower is not required to request an in-school deferment. If the lender grants an in-school deferment 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.

*Delivering loan funds:* 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. An eligible home school is exempt from the requirements to delay delivery of funds to first-year undergraduate students who are first-time borrowers enrolled in a study-abroad program if the school has a published cohort default rate of less than 5% for the most recent fiscal year for which information is available. A home school must cease to certify loans based on this exemption no later than 30 days after the date it receives notification from the Department of a FFELP cohort default rate, FDLP cohort default rate, or dual-program cohort default rate that causes the school to no longer qualify for this exemption. These changes are effective for disbursements scheduled by the school to be made on or after October 1, 1998.

*Disbursement rules:* 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.

*Disclosures:* 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.

*Eligibility – borrower and student:* 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.

*Eligibility – lender:* 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(c)(1) of the Code], for purposes of making FFELP loans only to undergraduate students age 22 or younger, provided the bank's FFELP portfolio does not exceed $5 million, is considered eligible to participate in the FFELP.

*Estimated financial assistance:* Estimated financial assistance (EFA) now includes national service education awards or postservice benefits, except when determining eligibility for a subsidized Stafford loan. In addition, veterans' educational benefits paid under Title 38, Chapter 30 (Montgomery GI Bill–Active Duty) must be excluded from a student's EFA when determining eligibility for a subsidized Stafford loan. This change is effective for Stafford loans certified by the school on or after October 1, 1998.

*Forbearance:* 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.

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.

*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 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.

*Interest rates:* 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 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 one percent, not to exceed 8.25%.

- 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.)

*Interest subsidy:* 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.

*Origination fee:* 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.

*Repayment terms:* 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.

*Teacher loan forgiveness:* 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 (and in some cases, Consolidation loan obligations). Unless otherwise instructed by the borrower, the lender must apply the payments received on the borrower's behalf for teacher loan forgiveness first to any outstanding unsubsidized Federal Stafford loan balances, next to any outstanding subsidized Federal Stafford loan balances, and then to any eligible outstanding Federal Consolidation loan balances.

### October 7, 1998

President Clinton signed into Law the Higher Education Amendments of 1998, which reauthorize the federal student financial assistance programs.

*Default:* The statutory default date is extended from 180 days delinquent to 270 days delinquent.

*Eligibility – lender:* 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.

*Interest payment and capitalization:* A lender may capitalize interest on an unsubsidized Stafford loan first disbursed from October 7, 1998 to June 30, 2000, inclusive, only when the loan enters repayment, the grace period ends, a deferment ends, a forbearance ends, or the loan defaults.

*Loan programs:* The administration is expressly prohibited from pursuing actions that would force the implementation of Direct Lending and cause a phase-out of the FFELP.

*Repayment terms:* Extended repayment is available to a new borrower on or after October 7, 1998, who has more than $30,000 in outstanding principal and interest on FFELP loans. An extended repayment schedule may provide for standard or graduated installments over a period not to exceed 25 years, an exception to the 10-year repayment period maximum. The $600 minimum annual payment requirement does not apply to extended repayment schedules.

*Voluntary Flexible Agreement:* An explanation of Voluntary Flexible Agreements (VFAs), approved by the Department of Education for implementation on or after October 7, 1998, advises that guarantors participating under VFAs must work with their school and lender partners to explain any unique requirements.

### October 8, 1998

*Bankruptcy:* 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.

*Child care provider loan forgiveness:* 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.

*Teacher loan forgiveness:* In the case of a borrower who has taught for more than 5 years, any consecutive 5-year period of qualifying service may be counted for teacher loan forgiveness purposes. Effective for teacher loan forgiveness determinations made after October 8, 1998.

### November 1998

*Common forms:* The Department released DCL 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.

## 1999

### January 1, 1999

*Disclosure requirements:* The term "Treasury offset" has been added to clarify that federal offsets managed by the U.S. Treasury Department's Financial Management Service may include the offset of federal payments other than tax refunds, such as Social Security benefits or federal retirement benefits. References to "state offsets" have been revised to eliminate specific mention of "state income taxes" or "taxes" and will be more generic since states may offset funds other than tax refunds. Guarantors will delay enforcement of FFELP disclosure requirements until such time as the amended provisions are reflected in common application documents. However, lenders should be aware that changes to federal processes have been in place for some time and default consequences to borrowers may be more comprehensive than lenders are currently disclosing to their clients.

*Disclosures:* The Department of Education removed the interest rate formula for Stafford and PLUS loans first disbursed on or after July 1, 1998, from the Borrower's Rights and Responsibilities section of the common Stafford and PLUS loan application materials. Lenders are now required to provide the actual interest rate, *including information on the rate's calculation*, in the initial disclosure to the borrower at or before the time of the first disbursement of a Stafford or PLUS loan. This change is enforced for Stafford and PLUS loans first disbursed on or after January 1, 1999, unless implemented earlier.

*Summer bridge extension:* A borrower who is enrolled through the end of the spring academic period and who qualifies for an extension of the in-school deferment may advise a lender of his or her intent to reenroll for the fall academic period. The lender must document the borrower's request and the date on which the borrower anticipates the fall academic period to begin. 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 in-school deferment eligibility for the fall period, the lender may retroactively process the summer bridge extension. This change is effective for summer bridge extensions processed by the lender on or after January 1, 1999, unless implemented earlier.

**February 1999**

*Annual loan limit:* The Department issued DCL GEN-99-7, which discussed the extension of eligibility for increased unsubsidized loan amounts due to the phase-out of the Health Education Assistance Loan (HEAL) program.

*Common forms:* The Department issued DCL GEN-99-9, which discussed the Master Promissory Note and related instructions and the use of these forms.

**March 8, 1999**

*NSLDS:* The National Student Loan Data System (NSLDS) no longer requires a school to report directly to the NSLDS any changes to a student's permanent address. Instead, the school must report these changes to the guarantor.

**April 1, 1999**

*Exceeding loan limits:* If a borrower inadvertently exceeds an annual or aggregate loan limit, the borrower may regain eligibility by repaying the excess funds in full, making satisfactory repayment arrangements with the lender, authorizing the school to adjust the excess loan amount, or authorizing the school to reallocate funds between a subsidized Stafford loan and an unsubsidized Stafford loan for which the borrower is eligible. Borrowers who exceed the annual or aggregate loan limit as a result of providing false or misleading information must repay such loans in full to regain Title IV eligibility. These revisions are effective for loan applications certified by the school (or in the case of a Consolidation loan application, received by the lender) on or after April 1, 1999, unless implemented earlier by the guarantor.

*Interest subsidy:* If a student fails to check the box on the 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. In addition, a student's failure to request a subsidized Stafford loan no longer precludes the reallocation of subsidized and unsubsidized funds (provided the student requested an *unsubsidized* Stafford loan). These changes are effective for loan applications and promissory notes received by the guarantor on or after April 1, 1999, unless implemented earlier by the guarantor.

**April 16, 1999**

The Department published corrections and other technical changes to the final regulations in §682. The regulations govern the Federal Family Education Loan Program.

*Authorizations and certifications:* For Stafford and PLUS loans made using a common application and promissory note, the school continues to be required to obtain written authorization from the borrower to permit the release of loan proceeds received by EFT or master check from the school's account. The authorization may be obtained on the common application and promissory note or a separate form, and it must be obtained at or before the release of the loan's first disbursement.

Effective for EFT or master check disbursements delivered by the school on or after April 16, 1999, schools are no longer subject to the 30-day time restriction for obtaining EFT or master check authorizations on forms other than the common application and promissory note. For Stafford loans made using the Master Promissory Note (MPN), the school is not required to obtain separate borrower authorization to permit the transfer of loan proceeds received by EFT or master check to the student's account.

*Bankruptcy:* The borrower's attorney has been added as an acceptable source for providing proof of a borrower's bankruptcy filing. In addition, a lender must react to the Notice of the First Meeting of Creditors or "other proof of filing" of the bankruptcy from the borrower's attorney or the bankruptcy court. This is effective for bankruptcy notices received by the lender from the borrower's attorney or other proof of filing received by the lender on or after April 16, 1999, unless implemented earlier by the guarantor.

*Claims – returned and refiled:* If a default or ineligible borrower claim is returned to the lender solely due to inadequate documentation, the lender's eligibility for interest, interest benefits, and special allowance payments is triggered from the date the lender received the returned claim. This change is effective for returned default and ineligible borrower claims received by the lender on or after April 16, 1999, unless implemented earlier.

*Consolidation loans:* The eligibility requirement to either make satisfactory repayment arrangements or agree to repay a Consolidation loan under an income-sensitive repayment schedule is not applicable to defaulted loans other than Title IV loans. If a lender elects to consolidate defaulted Title IV loans, the borrower must first make satisfactory arrangements with the loan holder to repay the defaulted loans, or agree to repay the Consolidation loan

under an income-sensitive repayment schedule. This is effective for applications received by the consolidating lender on or after April 16, 1999, unless implemented earlier by the guarantor.

*Credit balance:* A school may hold a borrower's Stafford or PLUS loan proceeds as a fiduciary for the benefit of not only the student but also the guarantor and the Department, if those proceeds represent a credit balance that would otherwise have been paid directly to the student or parent borrower. This revision does not apply to schools that are prohibited by the Department, under reimbursement payment methods, from holding credit balances. This is effective for credit balances held by a school on or after April 16, 1999.

*Deferment:* A borrower's defaulted loan is not eligible for a deferment that begins after the date of default, unless the borrower makes payment arrangements that are acceptable to the lender and that resolve the default prior to the payment of a default claim by the guarantor. Prior guidance was borrower-specific with respect to deferment of a defaulted loan prior to claim payment. This change is effective for deferment requests on defaulted loans granted by the lender on or after April 16, 1999.

*Disbursement rules:* Unless disbursement occurs by EFT or master check, Stafford loans must be disbursed by individual checks that are either payable to the student or copayable to the student and the school. Lenders must send individual checks for Stafford and PLUS loan borrowers directly to the school (except in the case of a student enrolled at an eligible foreign school). A Federal PLUS loan for a student enrolled in an eligible foreign school must be disbursed by an individual check that is made copayable to the parent borrower and the school. The check must be sent directly to either the parent borrower or the school. These changes are effective for loan proceeds disbursed by individual checks on or after April 16, 1999.

*Eligibility – borrower and student:* Each parent seeking a PLUS loan must not have property subject to a judgment lien for a debt owed to the United States. PLUS loans can no longer be made to two parents as comakers. This is effective for PLUS loans certified by the school on or after April 16, 1999.

*Entrance counseling:* Touch-tone telephone technology has been added to the list of methods by which schools may conduct entrance counseling on or after April 16, 1999.

*Forbearance:* For borrowers who are jointly liable for repayment of a PLUS loan or Consolidation loan, a lender may grant a forbearance on repayment of the loan only if the ability of each individual to make scheduled payments has been impaired based on the same or different conditions. Lenders may grant a forbearance to a borrower or endorser to permit the resumption of payments following the date of default only if the forbearance is granted prior to the lender's receipt of the claim payment. These changes are effective for forbearances granted by the lender on or after April 16, 1999.

*Interest subsidy:* Lenders may not bill for interest benefits on a loan from the date the lender determines or receives notice of the guarantor's determination that the borrower is eligible for a discharge due to closed school or false certification provisions. This is effective for loans determined by the lender to be eligible for discharge due to closed school or false certification on or after April 16, 1999, or for which the lender receives notice of the guarantor's determination of discharge eligibility on or after such date, unless implemented earlier by the guarantor.

*Loan certification:* The minimum period of enrollment for which the school may certify a loan for a defaulted borrower who has regained eligibility during the academic year is the academic year during which the borrower has regained eligibility. This change is effective for loans certified by the school on or after April 16, 1999.

*Repayment start:* On Stafford, SLS, and PLUS loans, a borrower's first payment due date must be no later than 45 days after the last day of the post-deferment grace period, unless the borrower makes a prepayment that advances the due date during this period. Exceptions to the establishment of a first payment due date no later than 45 days after the last day of a deferment or forbearance period may occur as a result of a borrower making a prepayment that advances the due date. These changes are effective for deferment, forbearance, and post-deferment grace periods ending on or after April 16, 1999, unless implemented earlier by the guarantor. For Consolidation loans, the lender must establish a first payment due date that is no more than 60 days after the date on which the last disbursement discharging underlying loans is made. This change is effective for Consolidation loans disbursed by the lender on or after April 16, 1999, unless implemented earlier by the guarantor.

*Repayment terms:* For repayment schedules issued by the lender on or after April 16, 1999, lenders must combine, to the extent practicable, all of a borrower's FFELP loans into a single account to be repaid under a single repayment schedule.

*Special allowance:* The lender may bill for special allowance on a loan only through the 60th day following the date of default, unless the lender files a claim on the loan on or before the 60th day following that default. This change is effective for claims filed by the lender on or after April 16, 1999, unless implemented earlier by the guarantor.

**May 1, 1999**

*Annual loan limit:* For loan periods beginning on or after May 1, 1999, schools offering eligible health profession programs are eligible to award the increased unsubsidized loan amounts to students enrolled at least half time in those programs, regardless of the school's past participation in the HEAL Program. Foreign schools are not eligible to award the increased unsubsidized Stafford loan amounts.

**June 1999**

*Eligibility – borrower and student:* The Department issued DCL GEN-99-16, which announces that the provision of the HEA related to student eligibility for Title IV financial aid due to drug convictions will not become effective until July 1, 2000.

**July 1999**

*Common forms:* The Department issued DCL GEN-99-23, indicating their approval of new deferment forms for the following deferment types:

- Unemployment
- Public Service
- Parental Leave/Working Mother
- PLUS Borrower with Dependent Student
- In-School
- Economic Hardship
- Education Related
- Temporary Total Disability

**July 1, 1999**

*Additional unsubsidized Stafford funding:* A school may certify an additional unsubsidized Stafford loan for a student whose parent is unable to obtain a PLUS loan. However, if either parent later becomes eligible for a PLUS loan, 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. This change is effective for loans certified on or after July 1, 1999, unless implemented earlier by the guarantor.

*Common forms:* The Master Promissory Note (MPN) must be used for Stafford loans certified by the school for loan periods beginning on or after July 1, 1999, implementing policy guidance provided in DCLs GEN-98-25 and GEN-99-9.

*Delivering loan funds:* For Stafford and PLUS loan proceeds disbursed by EFT or master check and received by the school on or after July 1, 1999, the school must deliver the funds directly to the student, or credit the student's account at the school, within three business days after the school's receipt of the loan proceeds.

*Deferment:* 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 new loan, despite any previous periods of deferment.

Parental leave deferments are neither borrower-specific nor loan-specific, but are based on occurrence. A borrower is eligible for a parental leave deferment for each newborn or adoption and may obtain a deferment for the maximum period for each occurrence. These changes are effective for deferment requests received by the lender on or after July 1, 1999, unless implemented earlier by the guarantor.

*Eligibility – borrower and student:* For loans certified by the school for periods of enrollment beginning on or after July 1, 1999, legal guardians have been eliminated from the definition of a parent for the purpose of PLUS loan eligibility.

*Guarantee transfer:* A borrower-requested guarantee 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 that is 30 or more days delinquent, that is currently filed as a claim with the transferring guarantor, or that reflects or should reflect a stay of collection activities based on the borrower's filing of a bankruptcy action, or if the lender does not know the current address of the borrower. The lender must provide written certification to the guarantor accepting the transfer that, according to its records at the time of transfer, none of these conditions exists 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 the borrower's written request or

the Department's written approval, as applicable, and supply the guarantor accepting the transfer with copies of those documents, if required by the guarantor. Guarantee fees paid on the loan will not be transferred. This is effective for guarantee transfer requests submitted by the lender on or after July 1, 1999, unless implemented earlier by the guarantor.

*Loan origination:* A lender may elect not to make subsequent loans under an existing Stafford Master Promissory Note (Stafford MPN). The lender's decision may be based on any number of circumstances—for instance, if there is a change in the borrower's circumstances (such as bankruptcy or delinquency) or because the loan is being requested under a Lender of Last Resort Program. This change is effective on exercise of a lender's option to discontinue making loans under an existing Stafford MPN on or after July 1, 1999.

### August 1, 1999

*Closed school loan discharge:* In the case of a closed school discharge request, a borrower must certify under penalty of perjury that all of the information that is provided by the borrower in the request and in any accompanying documents is true and accurate. This change is effective for all new loan discharge forms sent to borrowers on or after August 1, 1999. Other loan discharge applications sent to borrowers prior to that date may still be processed after that date.

*False certification loan discharge:* A borrower must complete, certify, and submit to the lender the applicable loan discharge form approved by the Department to qualify for a false certification discharge. For a loan discharge based on a disqualifying status, the borrower must complete, certify, and submit to the lender the Loan Discharge Application: False Certification (Disqualifying Status) form, in which the borrower states that he or she (or the student in the case of a PLUS borrower) was unable to meet the legal requirements for employment in the student's state of residence in the occupation for which the program of study was intended, due to age, physical or mental condition, criminal record, or other reason. The borrower must also provide information about the state legal requirement for employment that the student could not meet, including a reference to—or a copy of—the specific state law or regulation, and provide supporting documentation proving that the borrower had the disqualifying status at the time the loan was made. If the guarantor determines that a borrower is eligible for a loan discharge or a discharge of one or more disbursements on a loan, the discharge cancels the obligation of the borrower to repay the applicable outstanding principal, accrued interest, collection costs, and late fees. It also qualifies the borrower for reimbursement of any amounts paid voluntarily or through forced collection on the amount discharged. The lender or guarantor must ensure that a discharge is reported to credit bureaus, such that adverse credit history associated with the amount discharged is removed. This is effective for all new loan discharge forms sent to borrowers on or after August 1, 1999. Other loan discharge applications sent to borrowers prior to August 1, 1999, may still be processed.

### August 5, 1999

*Forbearance:* A lender may grant an administrative forbearance to a borrower—or endorser, if applicable—who contacts the lender and requests temporary relief from his or her loan obligation because he or she has been adversely affected by a natural disaster. The lender may grant an administrative forbearance for a period not to exceed 3 months, based on the borrower's or endorser's verbal or written request. Continuation of the forbearance beyond this 3-month period requires supporting documentation and a written agreement from the borrower or endorser. This change is effective for administrative forbearance granted by the lender on or after August 5, 1999, for a borrower or endorser who has been adversely affected by a natural disaster.

### August 9, 1999

*Common forms:* The Department issued DCL 99-G-319, which provides information regarding the approved Plain Language Disclosure (PLD) text for Stafford loans made under a Master Promissory Note (MPN) in the FFELP.

### August 19, 1999

*Common forms:* Implementation of the Common Claim Initiative (CCI) policies originally included in Chapter CCI8 (now Chapters 12, 13, and 14) of this Manual, and referenced under the *September 1, 1998* entry in this appendix, is delayed.

The new effective date for the implementation of the CCI policies originally in Chapter CCI8 (now Chapters 12, 13, and 14) will be as follows: A guarantor will establish the date on which it is ready to trade CCI electronic records with its trading partners. This date is referred to as the "G" date. All guarantor "G" dates will be established based on the final publication of the CCI electronic formats with one "G" date for preclaims and another "G" date for claims. The earliest "G" date that a guarantor may establish is two months after the final release of the CCI preclaim and claim documentation, respectively. The latest "G" date that a guarantor may use is 12 months following the final release

of the CCI documentation. All CCI trading partners will be provided a window of 6 months from each guarantor's "G" date to start reporting data using the CCI electronic format. Therefore, the preclaims and claims effective dates will be the guarantor "G" date plus 6 months. For example:

| | |
|---|---|
| July 6, 1999 | Preclaims Documentation Released |
| September 6, 1999 | Earliest Guarantor "G" Date |
| March 6, 2000 | Earliest Required Implementation Date |
| July 6, 2000 | Latest Guarantor "G" Date |
| January 6, 2001 | Latest Required Implementation Date |

**September 1999**

*Common forms:* The Department issued DCL GEN-99-28, announcing their approval of the following new PLUS Loan application forms, which must be used for applications issued on or after March 1, 2000:

- Application and Promissory Note for Federal PLUS Loan and instructions.
- Borrower's Rights and Responsibilities.
- Endorser Addendum to Federal PLUS Loan Application and Promissory Note and instructions.

The Department issued DCL GEN-99-30, announcing their approval of an extension of the expiration date of the Federal Stafford Loan Master Promissory Note (MPN) to August 31, 2002.

**September 9, 1999**

*Disbursement rules:* A lender must cancel all unmade disbursements if it receives reliable information that a federal student loan borrower—or the dependent student for whom a parent borrowed a PLUS loan—died before the disbursement was consummated. A school must return to the lender all loan funds that were disbursed to the school or delivered to the borrower or the student after the date of the borrower or dependent student's death, as applicable.

*Insurance:* A Stafford or PLUS loan disbursement is not insured if it is unconsummated at the time of the borrower's or student's death, as applicable.

**October 22, 1999**

The Department published Final Rules on student eligibility.

**October 29, 1999**

The Department published Final Rules on institutional eligibility and guarantors and FFELP lenders.

**November 1999**

*Common forms:* The Department issued DCL GEN-99-35, indicating their approval of a new Total and Permanent Disability Cancellation Request Form, which must be implemented no later than January 1, 2000.

**November 1, 1999**

The Department published Final Rules on refunds (return of Title IV aid), FFELP and Direct Loan program common provisions, consumerism, and cohort default rates.

*Common forms:* The Department issued DCL GEN-99-23 to implement revised common deferment forms that were approved by the Department in July 1999. Lenders must distribute the new deferment forms to borrowers no later than November 1, 1999.

*Forbearance:* The Department issued DCL GEN-99-36 to authorize lenders to grant an administrative forbearance in order to extend the period of suspension of due diligence for up to an additional 60 days if it is found, during the initial suspension period, that further time is needed to obtain the required death claim documentation.

**December 2, 1999**

*Common forms:* The Department issued DCL GEN-99-37, indicating their approval of four new loan discharge applications for the following reasons.

- School Closure
- False Certification of Ability to Benefit
- False Certification (Disqualifying Status)
- False Certification (Unauthorized Signature/ Unauthorized Payment)

# 2000

### January 1, 2000

*Consummated loans:* For recordkeeping and reporting purposes, rather than making a loan-level determination, a lender must determine whether a disbursement is consummated or unconsummated. This change is effective for disbursements made by the lender on or after January 1, 2000.

*Special allowance:* The average of the bond equivalent rates of the quotes of the 3-month commercial paper (financial) rates in effect for each of the days in the quarter (also called the 3-month commercial paper rate) is now a factor in calculating special allowance payable on the following loans:

- Stafford and PLUS loans first disbursed on or after January 1, 2000.
- Federal Consolidation loans made from applications received by lenders on or after January 1, 2000.

### January 3, 2000

*Audit:* At the request of a school, the Department may waive the annual audit submission requirement for schools that meet certain criteria. If the Department grants the waiver, the school will not need to submit a compliance audit or audited financial statement until six months after one of the following:

- The end of the third fiscal year following the fiscal year for which the school last submitted a compliance audit and audited financial statement.
- The end of the second fiscal year following the fiscal year for which the school last submitted compliance and financial statement audits if the award year in which the school will apply for recertification is part of the third fiscal year.

This change is effective for annual audit submission waiver requests submitted by the school on or after January 3, 2000, such that the Department may begin granting waivers on or after July 1, 2000.

### February 1, 2000

*Deferment:* For economic hardship deferment requests received by the lender on or after February 1, 2000, the lender must include defaulted loans on which the borrower has made satisfactory repayment arrangements with the holder when determining a borrower's federal education debt burden for purposes of establishing economic hardship deferment eligibility.

### March 1, 2000

*Bankruptcy:* A lender must file a bankruptcy claim if a Chapter 7 or 11 bankruptcy converts to a Chapter 12 or 13 bankruptcy. This is effective for bankruptcy filing or conversion notifications received by the lender on or after March 1, 2000, unless implemented earlier by the guarantor.

*Deferment:* A borrower who is unemployed, incarcerated, disabled, or on a temporary unpaid leave of absence from work may qualify for an economic hardship deferment if he or she provides the lender with documentation of his or her income. In addition, any borrower who does not have income when applying for an economic hardship deferment must provide to the lender a self-certifying statement, either on the deferment form or in a separate statement, indicating that he or she has no income. This is effective for economic hardship deferment requests received by the lender on or after March 1, 2000, unless implemented earlier by the guarantor.

*Payment application:* A lender is no longer required to document in the claim file the borrower's instructions regarding the application of 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. This change is effective for claims filed by the lender on or after March 1, 2000, unless implemented earlier by the guarantor.

### March 13, 2000

*Common forms:* Schools located outside of the United States may not use the multi-year feature of the MPN. Also, if a school has been deemed eligible by the Department to use the multi-year feature, the feature is applicable to all of the institution's students, even those who are not enrolled in four-year, graduate, or professional programs. This change is effective for loans certified by the school on or after March 13, 2000.

### April 1, 2000

*Deferment:* If the dependent student for whom a parent borrower obtained one or more PLUS loans meets the conditions required for an in-school deferment 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 that the parent borrower, on the date he or she signs the promissory note, had an outstanding balance on a FFELP loan disbursed before July 1, 1993. Previously, the Manual inadvertently limited such eligibility to borrowers with a loan first disbursed on or after July 1, 1987, but prior to July 1, 1993. In addition, a PLUS borrower is no longer eligible for a graduate fellowship deferment based on the status of a dependent student. These changes are effective for deferments granted by the lender on or after April 1, 2000, unless implemented earlier by the guarantor.

**May 1, 2000**

*Forbearance:* When granting a reduced-payment forbearance, the lender must provide the following information to the borrower:

- Information on the payment amount due during the forbearance.
- The address to which payments must be sent.
- The consequences, if any, of delinquency on payments required during the forbearance.

If a borrower becomes delinquent on required payments during a reduced-payment forbearance, the lender must comply with the terms of the forbearance agreement. Such terms may include the borrower being considered delinquent and ultimately defaulting if the agreed upon reduced payments are not made. This is effective for forbearances granted by the lender on or after May 1, 2000, unless implemented earlier by the guarantor.

**July 1, 2000**

*Additional unsubsidized Stafford funds:* A school may not certify additional unsubsidized Stafford loan funds for a dependent student based on the school's decision not to participate in the Federal PLUS Loan Program. This clarification is effective for unsubsidized Stafford loan funds certified by the school beginning no later than July 1, 2000.

*Bankruptcy:* If a borrower files a Chapter 12 or 13 bankruptcy, the lender must suspend any collection efforts against any comaker or endorser. Suspension of collection efforts against any comaker or endorser is optional if the borrower filed a Chapter 7 or 11 bankruptcy. If the lender is notified that a comaker or endorser has filed a petition for relief in bankruptcy, the lender must immediately suspend any collection efforts against the comaker or endorser that are outside the bankruptcy proceeding. If the comaker or endorser filed a Chapter 12 or 13 bankruptcy, the lender must also suspend any collection efforts against the borrower and any other parties to the note. Suspension of any collection efforts against the borrower and any other parties to the note is optional if the comaker or endorser filed a Chapter 7 or 11 bankruptcy. These changes are effective for active bankruptcies on or after July 1, 2000, unless implemented earlier by the guarantor.

*Borrower dispute:* If a borrower disputes the terms of a loan in writing, and the lender does not resolve the dispute, the lender must inform the borrower of an appropriate guarantor contact for the resolution of the dispute. This is effective for borrower disputes received by the lender on or after July 1, 2000.

*Claim filing requirements:* When filing a claim, a lender must include both the loan application (if separate) and the promissory note assigned to the guarantor (or a copy of the promissory note certified by the lender as true and accurate). This change is effective for claims filed by the lender on or after July 1, 2000—or prior to July 1, 2000, if the loan was made using the Master Promissory Note.

The lender must inform the guarantor if, after filing a default claim, the lender receives documentation that the loan(s) qualifies for a different type of claim payment. Effective for requests for unpaid refund loan discharge received by the lender on or after July 1, 2000.

*Claim repurchase/recall:* A lender will be required to repurchase a claim if the loan is ruled by a court to be legally unenforceable solely due to the lack of evidence of a Confirmation or Notification process for loans generated from the Master Promissory Note. This change is effective for loans ruled unenforceable by a court of law on or after July 1, 2000.

A lender must repurchase a default claim if a delay occurred in the processing of a deferment that began prior to the date of default. This is effective for deferment documentation processed by the lender on or after July 1, 2000, unless implemented earlier by the guarantor.

A lender must recall a default claim if the loan is reduced to 210 or fewer days delinquent before the guarantor pays the claim. This change is effective for loans on which the delinquency is reduced to 210 or fewer days on or after July 1, 2000, in cases where the lender has filed a claim based on the 270th day of delinquency but the guarantor has not yet paid the claim. This change may have been implemented by the guarantor on or after October 7, 1998.

*Closed school loan discharge:* A borrower may qualify for a closed school loan discharge without submitting a request if the borrower received a closed school discharge on a loan under the Federal Perkins Loan Program or the Federal Direct Loan Program for the same program of study at the same school, or if the Department or the guarantor, with the Department's permission, determines that the borrower qualifies for a discharge based on information in the Department's or guarantor's possession. This change is effective for closed school loan discharge determinations made on or after July 1, 2000.

*Cohort default rate:* Provisions related to the calculation of a school's FFELP cohort default rate, FDLP cohort default rate, or dual-program cohort default rate are revised as follows:

- A school may become ineligible to participate in the Federal Pell Grant Program as a result of ineligibility to participate in the FFELP or FDLP due to excessive cohort default rates.
- When the Department notifies a school of its draft cohort default rate, it will also provide a school which has a draft cohort default rate of 10% or more a copy of the supporting data used in calculating its draft rate.
- If a school is planning a challenge to its draft cohort default rate, the school now has 45 calendar days to provide information supporting its challenge to the guarantor(s). If the school is planning to challenge the anticipated loss of participation in the FFELP based on a draft cohort default rate of 25% or more for the three most recent years, the school has 30 calendar days after the date on which the school received its draft cohort rate information from the Department to challenge the data based on exceptional mitigating circumstances.
- If the school continues to participate in the FFELP during an appeal and the appeal 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 with respect to loans that the school certified and delivered more than 30 calendar days after the date the school received notification of the rate from the Department.
- In addition, the Department may determine that a school's appeal is valid under exceptional mitigating circumstances. In this case, a school's appeal must generally be based on the Participation Rate Index or based upon its service to economically disadvantaged students.

These changes are effective for cohort default rates issued by the Department on or after July 1, 2000.

*Common forms:* Use of the common application and promissory note for Stafford loans is discontinued on July 1, 2000, when use of the Federal Stafford Loan Master Promissory Note becomes mandatory. This is effective for Stafford loans certified by the school for any period of enrollment beginning on or after July 1, 2000, and for any loan certified on or after July 1, 2000, regardless of the loan period begin date.

For loans disbursed on or after July 1, 2000, or earlier if the loan was made using the Master Promissory Note (MPN), the following provisions exist:

- The MPN authorizes the lender to defer all of a borrower's FFELP loans based on information indicating that the borrower is enrolled at least half time.
- The MPN authorizes the lender to capitalize accrued interest on all the borrower's FFELP loans, including those made under the MPN.
- The MPN authorizes the lender to align repayment of the borrower's Stafford and SLS loans.

*Consolidation loans:* A Federal Consolidation loan borrower is not eligible for a subsequent consolidation loan unless the borrower meets one of the following conditions:

- The borrower has obtained a new eligible loan after the date the existing Consolidation loan was made.
- The borrower is consolidating an existing Consolidation loan with at least one other eligible loan, regardless of whether it was made before or after the date the existing Consolidation loan was made.

In either case, if the borrower meets all eligibility requirements, any or all outstanding eligible loans may be consolidated, including existing Consolidation loans and loans made before or after any existing Consolidation loan. However, a borrower or a married couple may not reconsolidate a single Consolidation loan. This change is effective for Consolidation loans made on or after July 1, 2000.

If a borrower, or either spouse in the case of a married couple, has FFELP loans held by multiple lenders, consolidation may be requested from any participating consolidation lender, regardless of whether the

consolidating lender is a holder of any of the borrower's loans. This is effective for consolidation loan applications received by the lender on or after July 1, 2000, unless implemented earlier by the lender.

*Deferment:* In-school deferments are not bound to the 6-month backdating rule that applies to other types of deferment. The lender must grant an in-school deferment for each eligible period of enrollment and may bill the Department for interest benefits on a subsidized Stafford loan, regardless of the date enrollment began. This change is effective for in-school deferments granted on or after July 1, 2000, unless implemented earlier by the lender. Lenders may implement this provision earlier than the regulatory effective date (but not before October 29, 1999, date of the regulatory change published in the *Federal Register*) to maximize the benefit to FFELP borrowers.

A lender must use any information certified by the school indicating that the borrower is enrolled at least half time in determining the eligibility of a borrower for an in-school deferment. If a lender grants an in-school deferment based on other information certified by the school and the borrower did not request the deferment, the lender must notify the borrower of the in-school deferment. The notification must advise the borrower of the option to pay the interest that accrues on an unsubsidized loan, the option to cancel the deferment and continue paying on the loan, and the consequences of these options. This is effective for in-school deferments granted on or after July 1, 2000, unless implemented earlier by the lender.

A lender may grant an unemployment deferment to a borrower who requests an unemployment deferment and provides to the lender evidence of the borrower's eligibility to receive unemployment benefits. In this case, the borrower need not provide the lender with the common deferment form or other additional information or documentation. This is effective for unemployment deferments granted on or after July 1, 2000, unless implemented earlier by the lender.

For unemployment deferments, a reference to the Freely Associated States has been added and the reference to the Trust Territory of the Pacific Islands has been deleted, when referring to borrowers residing in and seeking employment in a "state". The Freely Associated States are the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau. This is effective for deferments granted on or after July 1, 2000, unless implemented earlier by the lender.

*Disbursement rules:* A school must cease certifying loans based on exemptions to the multiple disbursement and delayed delivery requirements no later than 30 days after receiving notice from the Department of a FFELP cohort default rate, FDLP cohort default rate, or dual program cohort default rate that causes the school to no longer meet the necessary qualifications for these exemptions. In addition, eligible foreign schools are exempt from the requirement to delay delivery of funds to first-year undergraduate students who are first-time borrowers. These changes are effective for loans certified on or after July 1, 2000, by schools that have received notice from the Department that a cohort default rate causes the school to no longer meet the necessary qualifications.

If requested by the school, a lender may make disbursements after a disbursement has been returned, unless the lender or school has information that the student is no longer enrolled. This change is effective for school requests for disbursements received by the lender on or after July 1, 2000.

*Disclosure requirements:*

- Student Consumer Information – The school must provide consumer information on an annual basis and prior to a student enrolling in or entering into any financial obligation with the school. Information may be provided on an Internet Website accessible to the general public. However, an Intranet Website, which is accessible only to persons within the school, may not be used to provide information to prospective students. When providing the required information for student athletes, schools should follow the requirements of 34 CFR 668.48. Information provided to these students must also be provided by report to the Department by July 1 each year. A school's student consumer information must include a description of student rights and responsibilities specifically addressing financial assistance under the Title IV programs. Information that schools furnish regarding provisions for cancellation, deferment, or forgiveness of FFELP loans must now also indicate the availability of deferment for service in the Peace Corps, service under the Domestic Volunteer Service Act of 1973, or comparable volunteer service for a tax-exempt organization. These changes are effective for consumer information provided by the school on or after July 1, 2000.

- Repayment information – At or before the first disbursement of a Stafford or PLUS loan, the lender must provide the borrower, in a written or electronic format, the following information (in addition to that already required):

  - Information on the availability of income-sensitive repayment. The lender must provide, together or separately, all of the following:

    - A statement that the borrower is eligible for income-sensitive repayment, including through loan consolidation.

    - Procedures by which the borrower may choose income-sensitive repayment.

    - Where and how the borrower may obtain more information on income-sensitive repayment.

  The lender meets the preceding disclosure requirement by providing the borrower with the promissory note and associated materials approved by the Department.

  These changes are effective for initial disclosure notifications issued by the lender to the borrower on or after July 1, 2000.

  A lender may rely on the PLUS promissory note and associated materials approved by the Department to satisfy the requirement to provide the borrower with sample projections of monthly repayment amounts assuming different levels of borrowing and interest accruals. This change is effective for repayment disclosures issued by the lender on or after July 1, 2000.

  A lender must provide to borrowers, at the time repayment options are offered, a telephone number accessible at no cost to the borrower from within the U.S. from which the borrower can obtain additional loan information. A lender may disclose its own toll-free number or an alternative number (for example, a lender may offer a toll number at which the borrower can call collect; or with the permission of the guarantor, arrange to provide the guarantor's toll-free number). This change is effective for repayment disclosures issued by the lender on or after July 1, 2000.

  A lender must offer *all* borrowers the choice of a standard, income-sensitive, graduated, or, if applicable, an extended repayment schedule. In addition, the lender must inform the borrower through repayment notification that he or she is eligible for income-sensitive repayment (including through loan consolidation), the procedures by which the borrower can choose income-sensitive repayment, and where and how more information on income-sensitive repayment may be obtained. These changes are effective for repayment disclosures issued by the lender on or after July 1, 2000.

*Due diligence:* A lender must complete endorser due diligence requirements before filing a default claim, rather than during the delinquency period of the loan. This is effective for default claims for which the first day of delinquency on the oldest outstanding due date is on or after July 1, 2000, unless implemented earlier by the guarantor.

The following expanded requirements are effective for skip tracing initiated by the lender on or after July 1, 2001, unless implemented earlier by the guarantor:

- In performing telephone skip tracing with the financial aid administrator or other school official, lenders must direct written or telephone contact to the school identified on the most recent school certification or the most recent loan application.

- In performing address skip tracing, lenders must contact the schools in the borrower's loan file. This contact should be with the financial aid administrator or other school official who may reasonably be expected to know the borrower's address.

The period during which a lender must submit a request for default aversion assistance from a guarantor is defined as the Default Aversion Assistance Request (DAAR) period. This period begins no earlier than the 60th day and ends no later than the 120th day of the borrower's delinquency. If a lender fails to request default aversion during the DAAR period, and the lender later submits a claim on that loan, the lender is subject to an interest penalty. If the lender fails to file a request by the 330th day, it will not be entitled to receive interest, interest benefits, and special allowance for the 270 days immediately preceding the date on which the loan defaulted. After initially submitting a default aversion assistance request, a lender must provide any additional information requested by the guarantor or resubmit any rejected default aversion assistance request. This change is effective for loans for which the first day of delinquency on the oldest outstanding due date is on or after July 1, 2000, unless implemented earlier by the guarantor.

Due diligence requirements for lenders are expanded for loans for which the first day of delinquency on the oldest outstanding due date is on or after July 1, 2000, unless implemented earlier by the guarantor, as follows:

- The lender must continue due diligence efforts, urging the borrower to make the required loan payments between the 181st and 270th days of delinquency (between the 241st and 330th day of delinquency for loans payable in installments less frequent than monthly). Efforts made after the final demand letter has been sent must support the final demand, although these efforts are no longer restricted to diligent efforts to contact the borrower by telephone.

- The lender must mail the final demand letter when the loan becomes 241 or more days delinquent (301 or more days delinquent for loans payable in installments less frequent than monthly).

In at least one of the collection activities required of lenders under §682.411, the lender must inform the borrower of the availability of the Department's Student Loan Ombudsman's office. This is effective for loans with a first day of delinquency on the oldest outstanding due date that is on or after July 1, 2000.

*Eligibility – borrower and student:* Students convicted of the possession or sale of an illegal drug may not be eligible for Title IV funds. The Department determines the borrower's eligibility based on the student's self-certification on the Free Application for Federal Student Aid (FAFSA). The school is notified of the student's eligibility on the Institutional Student Information Record (ISIR). However, if the financial aid office has conflicting information regarding a drug conviction that affects the student's eligibility, this discrepancy must be resolved. This is effective for student eligibility determinations made for award years beginning on or after July 1, 2000.

A student enrolled in a graduate-level allied health program is no longer eligible for the increased Stafford annual and aggregate loan limits available to health profession students. Effective with the publication date of the 00-01 FSA Handbook.

A student enrolled in correspondence courses is eligible to receive Title IV assistance only if the correspondence courses are part of a program that leads to an associate, bachelor's, or graduate degree. A student enrolled in a telecommunications course at an institution of higher education is not considered to be enrolled in a correspondence course, if both of the following criteria apply:

- The student is enrolled in a program that leads to a certificate for a program of study of one year or longer, or to an associate, bachelor's, or graduate degree.

- The number of telecommunications and correspondence courses the school offered during its most recently completed award year was fewer than 50% of all the courses the school offered during the same year.

These changes are effective for award years beginning on or after July 1, 2000, unless implemented earlier by the school.

*Eligibility – school:* A branch campus may apply for participation as a main campus or freestanding institution if the branch campus of an eligible school has been in existence for at least two years following its certification by the Department as a branch campus. This is effective for branch campuses that apply for designation as a main campus or a freestanding institution on or after July 1, 2000, unless implemented earlier by the school.

A school no longer meets the definition of an eligible institution if the percentage of regularly enrolled students who are incarcerated is more than 25%, or if the percentage of regularly enrolled students who do not have a high school diploma or its equivalent is more than 50%. The Department may offer a waiver of the limit on the percentage of incarcerated students if the school is a nonprofit institution that provides 2-year or 4-year educational programs for which it awards an associate or bachelor's degree, or a postsecondary diploma. This is effective for school compliance with the definition of an eligible institution on or after July 1, 2000.

A proprietary school must receive no more than 90% of its revenues from Title IV funds. This calculation must be based on the school's most recently completed fiscal year. This is effective for revenues received by proprietary schools for fiscal years beginning on or after July 1, 2000, unless implemented earlier by the school on or after October 7, 1998.

A school may be prohibited from delivering Title IV funds to students if a school's Program Participation Agreement (PPA) expires or if a school undergoes a change in ownership resulting in a change in control or when a school changes status as a nonprofit, for-profit, or public school.

Provisions regarding the expiration of the school's Program Participation Agreement are effective retroactively to the implementation of the *Common Manual*. Provisions relating to a change of ownership resulting in a change in control are effective for Program Participation Agreements initiated on or after July 1, 2000, and Provisional Certifications granted by the Department on or after October 29, 1999.

*Entrance counseling:* Schools must include an explanation of the use of the MPN when conducting entrance counseling, and are authorized to use interactive electronic means as a method to conduct entrance counseling. Electronic means must be interactive, which at a minimum require schools to take reasonable steps to ensure that each borrower receives the counseling materials and participates in and completes the counseling. This change is effective for entrance counseling conducted by the school on or after July 1, 2000, unless implemented earlier by the school.

Effective for entrance counseling conducted by the school on or after July 1, 2000, unless implemented earlier by the school, the Department stipulates that a school must:

- Explain the use of the Master Promissory Note.
- Emphasize to the student the seriousness and importance of the repayment obligation the student is assuming.
- Describe in forceful terms the likely consequences of default, including adverse credit reports and litigation.
- Except for a student who receives a loan made or originated by the school, the school must emphasize that the student is obligated to repay the full amount of the Stafford loan, even if the student does not complete the program, is unable to obtain employment upon completion, or is otherwise dissatisfied with or does not receive the educational or other services that the student purchased from the school.

In an effort to improve a student's understanding of his or her loan repayment obligation, the Department recommends that the school provide additional information as outlined in Appendix D of §668 and the FSA Handbook as part of the entrance counseling.

*Exit counseling:* The following are new regulatory requirements for exit counseling for students who cease half-time attendance on or after July 1, 2000, unless implemented earlier by the school:

- Schools may use audiovisual or interactive electronic means to conduct exit counseling.
- Schools may provide exit counseling materials to study-abroad students by mail.
- Schools may use interactive electronic means for students who withdraw or fail to complete exit counseling.
- Schools are now required to provide the information listed in regulations and in Subsection 4.4.D of the *Common Manual.*
- Schools must inform students with SLS loans that refinancing of SLS loans is available.
- Schools must explain conditions for full cancellation of the loan, as well as partial cancellation.
- Schools must provide each student with information about the Department's Student Loan Ombudsman's office.
- Schools must explain the use of the Master Promissory Note.
- Schools must take reasonable steps to ensure that the student receives, participates in, and completes exit counseling if it is conducted by interactive electronic means.
- Schools must ensure that the average anticipated monthly repayment amount based on the student's indebtedness is provided to the borrower during exit counseling.

*False certification loan discharge:* When requesting a false certification loan discharge, borrowers are no longer required to certify that a reasonable attempt was made to obtain employment in the occupation for which the program was intended to provide training. This change is effective for false certification loan discharge requests received by the lender on or after July 1, 2000.

*Federal reporting:* If a lender owes origination fees or lender loan fees, the lender must submit ED Form 799 to the Department even if the lender is not owed or does not wish to receive interest benefits or special allowance payments.

*Forbearance:* A lender may grant an administrative forbearance to resolve an outstanding delinquency that precedes an administrative forbearance granted for a natural disaster, and that precedes a mandatory administrative forbearance granted for military mobilization, local or national emergency, or a designated disaster. This change is effective for disaster-related administrative forbearance and mandatory administrative forbearance granted for military mobilization, local or national emergency, or a designated disaster area on or after July 1, 2000.

A lender may grant subsequent periods of administrative forbearance, not to exceed 60 days each, if the lender determines that it is warranted in order to collect or process supporting documentation following a borrower's request for a deferment, forbearance, change in repayment plan, or loan consolidation. The lender may grant a new administrative forbearance period for each occurrence. The lender must document the reasons for granting each forbearance of this type in the borrower's loan history. This change is effective for subsequent administrative forbearances granted in order to collect and process supporting documentation following a borrower's request for a deferment, forbearance, change in repayment plan, or loan consolidation on or after July 1, 2000.

*Grace period:* A borrower who is called or ordered to active duty may receive multiple extensions of the grace period and no single extension may exceed 3 years. A borrower's full grace period is restored at the end of this period. This change is effective for second and subsequent notifications of active duty status received by the lender on or after July 1, 2000.

*Holder:* An eligible lender owning a FFELP loan is the new definition of a "holder." This change is effective July 1, 2000.

*Inducements:* Lenders are authorized to provide assistance to schools comparable to the kinds of assistance provided by the Department to schools under, or in furtherance of, the FDLP. This change is effective for assistance provided by lenders to schools on or after July 1, 2000, unless implemented earlier by the lender.

*Interest payment and capitalization:* For subsidized and unsubsidized Stafford loans first disbursed on or after July 1, 2000, the lender may capitalize interest only when the loan enters repayment, when a deferment ends, when a forbearance ends, and when the loan defaults.

*Interest subsidy:* For Federal Consolidation loans made from applications received by lenders on or after November 13, 1997, the portion of the loan that is eligible for interest subsidy is the portion that repaid any subsidized FFELP or Federal Direct Loan Program loan. This is effective for Consolidation loan applications received by the lender on or after July 1, 2000, unless implemented earlier by the lender.

*Leave of absence:* Federal regulations effective July 1, 2000, provide for implementation of these changes on or before October 7, 2000. If a school chooses to implement these regulations prior to October 7, 2000, it must implement them in their entirety.

A leave of absence is an approved leave if the following conditions are met:

- The school has a written policy regarding leaves of absence that is publicized to students and that requires a written, signed, and dated request from the student prior to the leave of absence.
- The student has requested the leave of absence according to the school's policy, and the school has approved the leave.
- The leave of absence does not involve additional charges by the school to the student.
- Upon return, the student is permitted to complete the coursework he or she began prior to the leave of absence.
- The leave of absence does not exceed 180 days in any 12-month period. The 12-month period begins on the first day of the student's leave of absence (or initial leave of absence, if applicable).
- Prior to granting the leave, the school explains to the student the effects that the student's failure to return from a leave of absence may have on repayment of the student's loans, including the depletion of some or all of the student's grace period.

In any 12-month period, the school should grant no more than one leave of absence to each student, except in the following situations:

- One subsequent leave of absence may be granted if the leave of absence does not exceed 30 days and the school determines that it is necessary due to unforeseen circumstances.

- Subsequent leaves of absence may be granted for jury duty, military reasons, or circumstances covered under the Family and Medical Leave Act of 1993. The school must document the reason for each subsequent leave of absence.

The total number of days of all leaves of absence may never exceed 180 days in any 12-month period.

The last date of attendance for students who fail to return from an approved leave of absence is based upon whether the school is required to take attendance. For schools required to take attendance, the last date of attendance is the last date of academic attendance reflected in the school's attendance records. For schools not required to take attendance, the last date of attendance is the date the student began the leave of absence.

*Lender of last resort:* A student is entitled to receive Stafford loans under the Lender of Last Resort (LLR) program if the student is eligible to participate in the FFELP and meets all of the following conditions:

- The student qualifies for interest benefits.

- The student is eligible for a combined subsidized and unsubsidized Stafford loan amount of at least $200.

- The student is otherwise unable to obtain loans from another eligible lender for the same period of enrollment or is attending a school that has been designated an LLR school.

In addition, an LLR may offer unsubsidized Stafford loans and PLUS loans through LLR programs to eligible borrowers who have been otherwise unable to obtain those loans from another eligible lender. Within 60 days of receiving a complete request from the borrower for an LLR loan, the guarantor must respond to the borrower with an approval or denial. If the LLR loan is approved, the guarantor will either serve as the lender or designate an eligible lender to make the LLR loan. This is effective for loan applications received by the LLR on or after July 1, 2000.

*Loan sales and transfers:* A school may request that the lender assign the original or a true and exact copy of the promissory note to the school in those cases where a school repays the entire loan amount for an ineligible borrower. This revision is effective for all loans made using a Master Promissory Note (MPN) for any period of enrollment beginning on or after July 1, 2000, and for any loan certified on or after July 1, 2000, regardless of the loan period begin date.

*Origination fee:* The lender must ensure that origination fees are assessed equally to all Stafford borrowers who reside in a particular state or who attend school in that state. The exception is that the lender may charge a lesser fee to a Stafford borrower who demonstrates "greater financial need" based on any one of the following qualifications:

- The borrower's expected family contribution (EFC), used to determine loan eligibility, is equal to or less than the maximum qualifying EFC for a Federal Pell grant at the time the loan is certified.

- The borrower qualifies for a subsidized Stafford loan.

- The borrower meets a comparable standard approved by the Department.

If a lender charges a lesser origination fee to a Stafford borrower who has been determined by the lender to have a "greater financial need," the lender must charge all such borrowers who reside in that state or attend school in that state the same origination fee. In addition, if the lender charges the borrower a lesser origination fee on an unsubsidized Stafford loan, the lender must charge the borrower the same fee on a subsidized Stafford loan. These changes are effective for fees owed by the lender on or after July 1, 2000.

*Program Participation Agreement:* The following are additional requirements for schools that are completing a program participation agreement:

- A school located in a state not covered by section 4(b) of the National Voter Registration Act (commonly known as the Motor Voter Registration Act) is required to make a good faith effort to mail a voter registration form to each enrolled student who is physically in attendance at the school and to make the forms widely available. This requirement includes elections for a state's governor or other chief executive or for federal office elections.

- A school seeking to participate in the FFELP for the first time must use a default management plan approved by the Department for at least the first two years of its participation in the FFELP if the owner of the school owns or owned any other school that had a cohort default rate greater than 10%.

- A FFELP-participating school undergoing a change of ownership that results in a change in control may be required to use a default management plan approved by the Department for at least the first two years following the change.

A school must submit a default management plan if it is seeking to re-establish eligibility based on a change in ownership that resulted in a change in control or if the school has a cohort default rate greater than 10%. This is effective for program participation agreements initiated on or after July 1, 2000, and provisional certifications granted by the Department on or after October 29, 1999.

*Record retention:* The list of required documentation that must be retained by the lender has been expanded to include all of the following:

- Documentation of any Master Promissory Note (MPN) Confirmation or Notification process or processes.

- A copy of the loan application, if a separate application was provided to the lender.

- A copy of the signed promissory note. The original or a true and exact copy of the promissory note must be retained until the loan is paid in full or assigned to the Department.

For loans made under an MPN, these changes are effective upon disbursement. For all other loans, changes apply to the lender's retention of the application and promissory note on or after July 1, 2000.

A lender must retain loan records for a period of not less than:

- 3 years after the date the loan is paid in full by the borrower.

- 5 years after the date the lender receives payment in full from any other source.

When a loan is paid in full by the borrower, the lender must either return the original promissory note or a true and exact copy of the promissory note to the borrower, or notify the borrower that the loan is paid in full. Revised policy deletes the requirement that any paid-in-full notification to the borrower be made by an alternative procedure acceptable under state law. Revisions regarding record retention time frames are effective for loan records retained by the lender on or after July 1, 2000. Revisions regarding lender notification that a loan has been paid in full by the borrower are effective for loans paid in full on or after July 1, 2000, unless the lender implements this provision earlier for loans made under an MPN.

Recordkeeping requirements for schools are revised as follows:

- A school must retain a copy of the MPN certification, or certification data if submitted electronically.

- A school must retain the cost of attendance, estimated financial assistance, and expected family contribution (instead of records of the calculations used to determine the loan amount).

- A school must retain a record of any MPN Confirmation or Notification process it used.

- The requirement that the school retain the name and address of the lender for each loan certified has been removed.

This change is effective for loan application/certification-related records maintained for loans certified on or after July 1, 2000, unless implemented earlier by the school as a result of initiating the MPN process.

*Status changes and reporting:* The in-school period end date for students enrolled in correspondence programs is the earliest of:

- The date the student borrower completes the program.

- The date of withdrawal.

- 60 days from the last day for completing the program, as established by the school.

The one-time provision by which a correspondence school was allowed to restore the student's in-school status if the student failed to submit an assignment has been deleted. These changes are effective for in-school period end dates determined by the school on or after July 1, 2000.

Effective for official and unofficial withdrawal determinations made by the school on or after October 7, 2000, unless implemented earlier by the school on or after November 1, 1999, a student who leaves school or fails to return to school as expected is considered to have withdrawn. The school must determine the withdrawal date and report that date to the lender or guarantor. For the 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 during which 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. For any student for whom the school is required to take attendance, the withdrawal date is the student's last recorded date of academic attendance, as determined by the school from its attendance records. If such a student does not resume attendance by the end of an approved leave of absence at the school, or takes an unapproved leave of absence, the withdrawal date is the student's last recorded date of academic attendance. The school must maintain documentation of the withdrawal date, beginning on the date the school determines that the student withdrew.

A school that is not required to take attendance must describe its withdrawal process to students and designate the persons or offices the student must contact to provide official notification of withdrawal. If the student provides notice of his or her intent to withdraw, the withdrawal date is the earlier of the following:

- The date the student began the school's withdrawal process.
- The date the student provided official notification to the school, in writing or orally, of his or her intent to withdraw.

If the student does not initiate the withdrawal process, the withdrawal date is one of the following:

- The midpoint of the payment period (or period of enrollment, if applicable).
- The date the student began a leave of absence if the student fails to return from an approved leave of absence or takes an unapproved leave of absence.
- The school may use certain alternatives to these methods of determining the withdrawal date when a student does not initiate the withdrawal process.

If the student does not provide official notice of his or her intent to withdraw to a school that is not required to take attendance, the school must determine the student's withdrawal date within 30 days after the last day of the earliest 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.

The school may allow a student to rescind his or her official notification to withdraw one time if the student signs a written statement that he or she is continuing to participate in academically related activities and intends to complete the payment period or period of enrollment, as applicable. The school must report the withdrawal date to the lender. This date determines the beginning of the student's grace period. A withdrawal date must consist of a month, day, and year.

*Unpaid refund discharge:* If the lender learns that an open school did not pay a required refund, the lender must provide the borrower a discharge request form and an explanation of the qualifications and procedures for obtaining a discharge. The lender must also promptly suspend any collection activities on the loan for at least 60 days or until the lender receives the guarantor's determination, whichever is earlier. To qualify for an unpaid refund discharge, a borrower must complete, certify, and submit to his or her lender or guarantor a written request and a sworn statement (notarization is not required), made under penalty of perjury. The guarantor may, with the Department's consent, grant an unpaid refund discharge without a borrower's request if the guarantor determines, based on information in the guarantor's possession, that the borrower qualifies for a discharge. If the lender does not receive the borrower's completed discharge request within 60 days of the date on which the lender sent the request to the borrower, the lender must resume collection activities and grant a forbearance for the period when collection activities were suspended. Any interest accrued and not paid during this period may be capitalized. If the lender receives the borrower's unpaid refund discharge request more than 60 days from the date on which the lender sent the request to the borrower, the lender may grant an additional administrative forbearance on any affected loan. The unpaid refund provisions are effective for completed unpaid refund discharge requests received by the lender or guarantor and unpaid refund allegations received by the school on or after July 1, 2000.

For an unpaid refund discharge request for a closed school, the guarantor is required to purchase an approved discharge request or return the request to the lender within 45 days. For an unpaid refund discharge request for an open school, the guarantor may take up to 120 days to resolve the unpaid refund with the school. The guarantor is required to purchase an approved discharge request or return it to the lender within 45 days from the date the eligibility determination is made. These time frames are effective for unpaid refund discharges granted on or after July 1, 2000, for loans disbursed, in whole or in part, on or after January 1, 1986.

**October 2000**

*Consolidation loans:* The following changes apply to Consolidation loans made using the common Consolidation loan forms approved for use by the Department in October 2000:

- Married couples applying for a spousal consolidation loan no longer need to complete a separate form, but must complete all applicable sections of the common Consolidation loan forms, including those that apply to spousal consolidation.

- The borrower's authorization for the release of information is now included on the application and promissory note.

- A borrower must certify that he or she does not owe an overpayment on a Pell, SEOG or LEAP Grant and that all loans being consolidated were used to finance the education of the borrower, the borrower's spouse, or the borrower's child.

- Borrowers who wish to add eligible loans to a Consolidation loan must complete and return the *Request to Add Loans* form to the lender so that the lender receives it within 180 days of the date the original Consolidation loan was made. In addition, the lender must disclose new repayment terms to the borrower, if the terms of the borrower's Consolidation loan change due to the addition of loans within the 180-day add-on period.

**October 1, 2000**

The Department publishes DPL GEN-01-06, which provides voluntary standards for lenders to use for electronic signatures in electronic student loan transactions. The voluntary standards protect lenders from loss of guarantee, federal interest benefits, and special allowance payments if a loan is determined to be legally unenforceable based solely on the processes used for the electronic signature or related records. If a lender's processes for electronic signatures and related records do not satisfy these standards and a loan is held by a court to be unenforceable based solely on these processes, the Department will determine on a case-by-case basis whether federal benefits will be denied or paid. A lender is not protected from these losses on loans made using electronic signatures in electronic student loan transactions to students attending foreign schools even if the lender complies with these standards. This guidance is effective for FFELP documents signed electronically by the borrower on or after October 1, 2000.

**October 7, 2000**

*Eligibility – borrower and student:* In addition to having the option of making satisfactory repayment arrangements with the school, borrowers have the option of making satisfactory repayment arrangements with the Department to resolve an overpayment of $25 or more in order to be considered eligible for additional Title IV funds.

*Leave of absence:* "Leave of absence" is defined as a status in which the student is considered to be continuously enrolled for Title IV program purposes. Effective for official and unofficial withdrawal determinations made by the school on or after October 7, 2000, unless implemented earlier by the school on or after November 1, 1999.

*Post-withdrawal disbursement:* A post-withdrawal disbursement is a disbursement made to a student who has withdrawn, but who earned more Title IV aid than was disbursed. If the student earned more Title IV aid than was disbursed and is otherwise eligible to receive funds, the school must deliver a post-withdrawal disbursement to the student (or parent, in the case of a PLUS loan). The school is not required to return funds when the student is eligible to receive a post-withdrawal disbursement. The school may credit all or a portion of the post-withdrawal disbursement to the student's account, up to the amount of outstanding charges. To assist schools, the Department provides a Post-Withdrawal Disbursement Tracking Sheet. A post-withdrawal disbursement is different from a late disbursement in the following ways:

- The school is required to offer an eligible borrower a post-withdrawal disbursement, and if accepted, to deliver the post-withdrawal disbursement.

- The post-withdrawal disbursement must be made from available Title IV grant funds before available loan funds.

- The 90-day period for the school to deliver the post-withdrawal disbursement is calculated from the date of the school's determination that the student withdrew rather than from the student's withdrawal date.

If the student is eligible for a post-withdrawal disbursement, the school must offer the disbursement within 30 days of the date of on which it determines that the student withdrew. If any amount of a post-withdrawal disbursement remains after the student's institutional charges are paid, the school must offer that amount to the borrower within 30 days of determining that the student withdrew. The school must provide a written notice to the borrower regarding the funds to be delivered. These changes are effective for students who withdraw on or after October 7, 2000, unless implemented earlier by the school on or after November 1, 1999. If a school chooses to implement these regulations prior to October 7, 2000, it must implement them in their entirety.

*Return of Title IV funds:* Effective for official and unofficial withdrawal determinations made by the school on or after October 7, 2000, unless implemented earlier by the school on or after November 1, 1999:

- If a student dies during the loan period, the school must perform a return of Title IV funds calculation and must return all Title IV funds for which it is responsible. However, the student's estate is not responsible for returning any unearned funds that would be the responsibility of the student to repay.

- If a student is enrolled in a clock-hour program where scheduled hours are used to determine the percentage of aid earned in the return of Title IV funds calculation, then a student does *not* earn 100% of his or her Title IV aid if the percentage of the payment period or period of enrollment completed exceeds 60%.

- The amount of Title IV loan and grant aid earned by the student equals the amount of aid that was delivered to the student plus the amount of aid that could have been disbursed or delivered during the payment period or period of enrollment, multiplied by the calculated percentage of Title IV aid earned. The amount of Title IV loan and grant aid that is unearned and must be returned is equal to the total amount of disbursed Title IV aid minus the amount of Title IV aid that has been earned.

- Institutional charges used in the return of Title IV funds calculations are always the institutional charges that were initially assessed the student for the payment period or period of enrollment, unless the school adjusted the student's institutional charges before the student withdrew (e.g., tuition was adjusted for a change in enrollment status). If the school waives all or some of the tuition and fees for certain students, the waiver of tuition and fees under the return of Title IV funds requirements must be consistent with the required treatment of the waiver for purposes of calculating the student's cost of attendance for Title IV purposes.

A new method of performing withdrawal calculations (replacing the pro rata refund policy), called the "return of Title IV funds" specifies changes in the granting of leaves of absence, determination of withdrawal dates, and in the order in which funds are to be returned to the Title IV aid programs. Federal regulations effective July 1, 2000, provide for implementation of these changes on or before October 7, 2000. If a school chooses to implement these regulations prior to October 7, 2000, it must implement them in their entirety.

A school must return Title IV program funds for which the school is responsible no later than 30 days after the date on which the school makes the determination that the student has withdrawn, or the "date of determination."

- **Calculations**

  For each Title IV aid recipient who withdraws, the school must calculate the amount of Title IV assistance the student has earned. This amount is based on the length of time the student was enrolled. The school must return any portion of unearned Title IV funds for which the school is responsible. The school must also advise the student of the amount of unearned Title IV grant aid that he or she must return, if applicable. The student (or parent, in the case of a PLUS loan) must repay any unearned funds that the school was not responsible to return according to the normal terms of the loan. Upon request, the school must provide to enrolled and prospective students a copy of any refund policy with which the school is required to comply and that addresses the refund of tuition and fees or other refundable costs paid by the student. The written policy must include the requirements and procedures a student should follow to officially withdraw from the school. The school must also provide a summary of the federal requirements for the return of Title IV funds.

- **Return Amounts for Title IV Grant and Loan Programs**

  If a student has completed more than 60% of the payment period, he or she is considered to have earned 100% of the Title IV grant and loan aid received for the payment period. In this case, no funds need to be returned to the Title IV aid programs. However, if a student withdraws before completing more than 60% of the payment period or period of enrollment, the amount of any Title IV grant and loan aid the student received for the payment period or period of enrollment must be recalculated to reflect the portion of the payment period that he or she completed prior to withdrawal. The unearned Title IV grant and loan aid for the percentage of the payment period not completed must be returned to the applicable Title IV aid programs.

  Calculations for the return of Title IV funds may be based upon the period of enrollment. Schools must consistently use either the payment period or the period of enrollment as the basis for all calculations for the return of Title IV funds for the following categories of students:

  – Students who have attended an educational program from the beginning of the period of enrollment or payment period.

  – Students who re-enter the school during a period of enrollment or payment period.

  – Students who transfer into the school during a period of enrollment or a payment period.

- **Percentage of Title IV Aid Returned**

  For programs measured in credit hours, the total number of calendar days the student completed is divided by the total number of calendar days in the payment period or period of enrollment. For an eligible program that combines a series of modules into a semester, trimester, or quarter, and measures progress in credit hours, the payment period includes all of the modules the student was scheduled to attend in the semester, trimester, or quarter beginning with the module that included the student's first day of attendance. For programs measured in clock hours, the total number of clock hours the student completed is divided by the total number of clock hours in the payment period or period of enrollment.

  The order in which unearned funds must be returned has been changed. Schools must ensure that returned funds are applied to eliminate outstanding balances on loans and grants for the payment period, or period of enrollment, in the following order:

  – Unsubsidized Stafford loans
  – Subsidized Stafford loans
  – Direct Unsubsidized Stafford loans
  – Direct Subsidized Stafford loans
  – Federal Perkins loans
  – PLUS loans received on behalf of the student
  – Direct PLUS loans received on behalf of the student
  – Federal Pell grants
  – Federal SEOG Program aid
  – Other Title IV grant or loan assistance

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

  The July 1, 2000, regulations provide that these changes are effective for Title IV recipients who withdraw on or after October 7, 2000, unless implemented earlier by the school on or after November 1, 1999. If a school chooses to implement these regulations prior to October 7, 2000, it must implement them in their entirety.

*Status changes and reporting:* Effective for official and unofficial withdrawal determinations made by the school on or after October 7, 2000, unless implemented earlier by the school on or after November 1, 1999:

- The school must maintain documentation of the withdrawal date as of the date the school determines the student withdrew, and must report the withdrawal date to the lender. This date determines the beginning of the borrower's grace period or repayment period. A withdrawal date must consist of month, day, and year.

- A school must describe its withdrawal process to students, including those actions which constitute the "beginning" of the withdrawal process, and designate one or more offices the student must contact to provide official notification of withdrawal. The school may allow a student to rescind his or her official notification to withdraw if the student signs a written statement that he or she is continuing to participate in academically

related activities and intends to complete the payment period or period of enrollment, as applicable. If the student subsequently fails to attend or ceases attendance without completing the payment period or period of enrollment, the student's withdrawal date is the original date of notification of intent to withdraw, unless the school records a later date on which the student participated in an academically related activity.

*Withdrawal:* At a school that is required to record attendance, the withdrawal date for a student who has died is the last date of attendance as determined from the school's attendance records. At a school that is not required to record attendance, the withdrawal date for a student who has died is the date the student died.

If the student withdraws prior to the completion of at least one course in one module and the student provides confirmation to the school—subsequent to his or her withdrawal from the course—that he or she plans to attend a module later in that term, the student is not considered to have withdrawn for return of Title IV funds purposes. The school may not rely solely on registration information obtained from the student prior to his or her withdrawal. If the student withdraws prior to the completion of at least one course in one module and provides confirmation that he or she plans to attend a subsequent module within the term but then fails to do so, the student is considered to have withdrawn as of the date that would have applied if the student had not indicated his or her intent to return in a subsequent module within the term. Effective October 7, 2000, unless implemented earlier by the school on or after November 1, 1999.

### November 8, 2000

*Delivering loan funds:* DPL GEN-00-18 published November 8, 2000, provides procedures a school should use to ensure that it does not deliver FFELP loan funds to students who are ineligible due to an unresolved overpayment of Title IV funds or an unresolved default on a Title IV loan. In all cases, the school must retain documentation that clearly substantiates its determination that a prior overpayment or default has been resolved. Documentation that the reporting entity has "no record" of the prior overpayment or default is not considered adequate for the release of FFELP funds. This change is effective for loans certified by the school on or after November 8, 2000.

### December 1, 2000

*Return of Title IV funds:* A school may include funds from a second or subsequent disbursement of FFELP funds as aid that could have been disbursed when completing return of Title IV funds calculations if the school would have been permitted to deliver the funds on or before the date the student withdrew. This provision is effective for return of Title IV funds calculations completed on or after December 1, 2000.

## 2001

### January 1, 2001

*Death discharge:* PLUS loan borrowers, who were not eligible for discharge due to the fact that the student for whom they obtained the PLUS loan died prior to July 23, 1992, are now eligible for discharge. This change is effective for PLUS loan death claims based on the student's death occurring prior to July 23, 1992 and filed by the lender within 60 days of determining or redetermining eligibility on or after January 1, 2001, unless implemented earlier by the guarantor.

*Interest payment and capitalization:* A lender may capitalize interest accrued from the date a claim is paid through the date the claim is later repurchased—regardless of whether the lender or guarantor initiated the repurchase. In all cases, the lender must document the reason for capitalization in the borrower's loan record. This change is effective for repurchase transactions completed on or after January 1, 2001, unless implemented earlier by the guarantor.

### January 5, 2001

*Common forms:* The Common Claim Initiative (CCI) establishes new, standard formats for lenders to use when requesting default aversion assistance and claim reimbursement. To standardize the default aversion assistance request process for lenders, the *Common Manual* guarantors have adopted a common Default Aversion Assistance Request Form and related common policies.

A lender must request default aversion assistance through the Default Aversion Assistance Request Form or an equivalent electronic process, such as the Common Account Maintenance (CAM) reporting process.

A guarantor establishes the date on which it is ready to trade CCI electronic records with its trading partners (i.e., lenders and servicers). This date is referred to as the "G"

date. All guarantor "G" dates will be established based on the final publication of the CCI electronic formats, with one "G" date for default aversion assistance and another "G" date for claims. The final "G" date for implementing the Default Aversion Assistance Request Form and its related policies was January 5, 2001.

**May 2001**

*Notification – borrower and student:* A school may use electronic means to deliver notices that the school is required to provide to a student and/or parent borrower. Before such notices are sent electronically to a borrower and/or student, the individual must consent to the use of an electronic record in a manner that demonstrates reasonably that the individual is able to access the information to be provided in an electronic form. The borrower's and/or student's consent must be voluntary and based on accurate information about the transactions to be completed. These electronic notifications must be sent in accordance with the Electronic Signatures in Global and National Commerce Act (P.L. 106-229).

**June 29, 2001**

*Period of enrollment:* The maximum period of enrollment for which the school can certify a loan for a defaulted borrower whose eligibility to borrow FFELP loans has been reinstated during the current academic year is the academic year during which the borrower regained eligibility, unless the borrower is not eligible for other reasons. This provision is effective for loans certified by the school on or after June 29, 2001.

**July 1, 2001**

*Claim filing requirements:* Effective for claim documentation submitted by the lender on or after July 1, 2001, the lender must submit either the original promissory note or a copy of the promissory note certified by the lender as "true and exact" rather than the previously required "true and accurate."

An original or certified copy of the death certificate is the only acceptable proof of death documentation permitted for death claims. In the event of an exceptional circumstance and on a case-by-case basis, the guarantor's chief executive officer (CEO) may approve a discharge based on other reliable documentation. This change is effective for death claims filed by the lender on or after July 1, 2001, unless implemented earlier by the guarantor.

*Cohort default rates:* Substantive regulatory and policy changes effective for cohort default rates calculated on or after July 1, 2001, are as follows:

- A school will lose eligibility to participate in the FFELP and the FDLP 30 days after receiving notice that its official cohort default rate for the most recent fiscal year exceeds 40%, unless the school appeals or requests an adjustment to that rate. The loss of eligibility is applicable to the remainder of the fiscal year in which the notice is received and the next 2 fiscal years.

- A school will lose eligibility to participate in the FFELP, the FDLP, and the Federal Pell Grant Program 30 days after receiving notice that its three most recent official cohort default rates equal or exceed 25%, unless the school appeals or requests an adjustment to that rate. The loss of eligibility is applicable to the remainder of the fiscal year in which the notice is received and the next 2 fiscal years.

- Any school may appeal its most recent cohort default rate based on improper servicing and collection. A school subject to an initial loss of eligibility may appeal any cohort default rate upon which the loss of eligibility is based. A school subject to an extended loss of eligibility may appeal only its most recent official cohort default rate.

- A school subject to provisional certification may appeal its cohort default rate using the erroneous data appeal.

- The calculation of the Participation Rate Index (PRI) challenge or appeal has been expanded to address schools with a single cohort default rate over 40%. A school that is subject to a loss of FFELP eligibility may use the PRI appeal based on either of the following conditions:

  – The school has one cohort default rate over 40% and the PRI for that cohort's fiscal year is less than or equal to 0.06015.

  – The school has three consecutive cohort default rates of 25% or more and the PRI for any one of the three cohorts' fiscal years is less than or equal to 0.0375.

- A school remains accountable for the consequences of a high official cohort default rate after its merger with or acquisition of another school, or after a branch campus becomes a separate, freestanding school.

- Any school that merges with or acquires another school and that is otherwise eligible to participate in the FFELP loses FFELP eligibility based on a single official cohort default rate greater than 40% or equal to or greater than 25% for each of its three most recent official cohort rates if all of the following criteria apply:

  - Both schools are parties to a transaction that results in a change in structure or identity.

  - The FFELP-eligible school offers an educational program at substantially the same address as that at which the FFELP-ineligible school offered programs before the change in structure or identity.

  - There is a commonality of ownership or management between the two schools.

- A school subject to a loss of eligibility due to a single cohort default rate exceeding 40% may submit an "average rate appeal" if at least two of the school's three most recent cohort default rates of 25% or more are calculated at an average rate, and at least two of those rates would be less than 25% if calculated for the applicable fiscal year alone.

- All references to "days" in cohort default rate regulations are changed to refer to calendar days. Previously, various time frames and deadlines carried their own specific definition of days, sometimes "business days" and sometimes "calendar days."

- All references to the "weighted average cohort default rate" have been changed to the "dual-program cohort default rate," as the latter term is the one used by the Department in its publications.

- References to the Department's *Draft Cohort Default Rate Guide* and *Official Cohort Default Rate Guide* are replaced with a reference to the *Cohort Default Rate Guide*. It is the Department's intention to consolidate both the draft and official information into a single publication that will be updated annually.

*Deferment:* Documentation requirements are made more flexible for a borrower who wants to continue an unemployment deferment based on his or her search for employment following the initial period of deferment. The information provided showing that the borrower made at least six diligent attempts to secure full-time employment during the prior 6-month period must be acceptable to the lender and may include the employer's name, address, telephone number, and electronic addresses. This flexibility applies to unemployment deferments granted on or after July 1, 2001.

Lenders must use evidence of the borrower's "monthly income," rather than "total monthly gross income," when determining a borrower's eligibility for an economic hardship deferment. "Monthly income" is defined as the gross amount of income received by the borrower from employment and other sources, or one-twelfth of the borrower's adjusted gross income, as recorded on the borrower's most recently filed federal income tax return. There is no longer a difference in required documentation for an initial and a subsequent economic hardship deferment. Any retroactive period of economic hardship granted under this revised policy must include July 1, 2000, or a later date. This deferment may be granted for periods of up to 1 year at a time and may be renewed for a total that, collectively, does not exceed 3 years. For a borrower who is serving as a volunteer in the Peace Corps, the deferment may be granted for the lesser of the borrower's full term of service or the borrower's remaining period of economic hardship deferment eligibility under the 3-year maximum. In all cases, the lender must ensure that the borrower's required documentation supports the begin date of the economic hardship period. This change is effective for economic hardship deferments granted by the lender on or after July 1, 2001.

The 6-month backdating restrictions are removed from all deferments except the initial unemployment deferment. An initial unemployment deferment based on a borrower's self-certification may not begin more than 6 months before the date the lender receives a request and documentation required for the deferment. Any extension of an existing unemployment deferment or an unemployment deferment that is based on evidence of the borrower's eligibility for unemployment benefits is not subject to the 6-month backdating restriction. For all deferment types, other than an in-school deferment, elimination of the 6-month backdating restriction is only applicable for deferments granted on or after July 1, 2001, for any period of deferment that includes July 1, 2001, or a later date.

*Delivering loan funds:* The prescriptive process that required a school to confirm a borrower's eligibility prior to delivering each disbursement is removed. The revised policy clarifies that a school may deliver the proceeds of any loan disbursement only if it determines that the student has maintained continuous eligibility for the loan period certified by the school. This change is effective July 1, 2001.

A school may not deliver Stafford or PLUS loan proceeds to a student or parent of a student who previously attended another eligible school until the school determines, from information obtained from the National Student Loan Data System (NSLDS) or its successor system, that the student meets eligibility requirements pertaining to his or her financial aid history. For a student who transfers from one school to another during the same award year (i.e., a current-year transfer student), the school the student is attending must request or access through the NSLDS updated information about that student in order to determine the student's eligibility for Stafford or PLUS loan proceeds. The school must wait for 7 days following a request to the NSLDS before delivering Stafford or PLUS loan proceeds. However, if, before the end of 7 days, the school receives the information from the NSLDS in response to its request or obtains that information itself by directly accessing the NSLDS, the school may deliver the loan proceeds as long as the student is otherwise eligible. Schools may no longer delay delivery of loan proceeds by 45 days while waiting for paper financial aid transcripts to arrive. These changes are applicable to Stafford and PLUS loan funds delivered by the school on or after July 1, 2001.

A school with a program measuring academic progress in credit hours, but not using a standard semester, trimester, or quarter system, may deliver loan proceeds in each term as long as the terms are substantially equal in length throughout the loan period. Terms within a loan period will be considered substantially equal in length if no term in the loan period is more than two weeks longer than any other term in the loan period. This requirement applies to Stafford and PLUS loan funds delivered by the school on or after July 1, 2001.

*Disability discharge (total and permanent):* A borrower who has had a prior loan discharged due to total and permanent disability on or after July 1, 2001, but before July 1, 2002, must reaffirm the discharged loan if the borrower *applies* for a loan within 3 years from the date the borrower became totally and permanently disabled, as certified by a physician. In this case, the borrower must reaffirm the previously discharged loan before receiving any new Stafford or PLUS loan. This provision is effective for Stafford and PLUS loan eligibility determinations made on or after July 1, 2001.

A borrower who has had a prior loan discharged due to total and permanent disability must meet the following requirements to be eligible to receive a new Stafford or PLUS loan:

- 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.
- Reaffirm any loan that had been discharged due to total and permanent disability on or after July 1, 2001, but before July 1, 2002, if the borrower receives a new loan within three years of the date the borrower became totally and permanently disabled, as certified by a physician. (A borrower who has had a prior loan discharged due to total and permanent disability before July 1, 2001, is *not* required to reaffirm the discharged obligation.)

This change is effective for Stafford and PLUS loan eligibility determinations made on or after July 1, 2001.

A new definition of a total and permanent disability for the purpose of obtaining a loan discharge provides that the certifying physician (i.e., a doctor of medicine or osteopathy, legally authorized to practice in a state) is not required to consider the borrower's ability to attend school as a condition of his or her eligibility for discharge. In addition, the physician is no longer required to consider the date the borrower became unable to attend school when providing the begin date of the borrower's total and permanent disability. This change is effective for total and permanent disability claims filed by the lender on or after July 1, 2001.

*Due diligence:* Lenders must notify the guarantor of any changes in delinquency status on a loan that result in a change to the payment due date, even if the delinquency is not reduced below the point at which the guarantor requires the lender to cancel a request for default aversion assistance. This change is effective for default aversion

assistance requests filed by the lender on or after July 1, 2001, or the date the guarantor implements the Common Claim Initiative (CCI), whichever is later, unless implemented earlier by the guarantor.

*Eligibility – school:* To participate in any Title IV program, a school must establish its eligibility under the Higher Education Act of 1965, as amended, in accordance with the procedures specified by the Department. A school must submit an Application for Approval to Participate in the Federal Student Financial Aid Programs (E-App) to the Department to request a determination that it qualifies as an eligible institution and must include a request for certification to participate in the FFELP. To be certified for participation, a school must meet the qualifications of an eligible institution; the school must meet administrative capability and financial responsibility requirements; and if the school is participating for the first time in Title IV programs, and it has not requested and been granted a training waiver, designated school administrators defined by the Department must complete Title IV training within 12 months after the school executes the Program Participation Agreement. A school that is currently participating in some Title IV programs is not required to have certification training if it is only requesting approval to participate in additional Title IV programs. This clarification is effective for schools establishing eligibility on or after July 1, 2001.

A school that adds a licensed and accredited location that offers at least 50% of an educational program must report to the Department before delivering Title IV funds to eligible students attending the added location. In addition, after reporting, a school must have approval from the Department before it can deliver Title IV funds to eligible students attending the added location if it meets any of the following criteria:

- The school is provisionally certified.
- The school is on the reimbursement or cash monitoring system of payment.
- The school has acquired the assets of another school that provided educational programs at that location during the preceding year, and the other school participated in Title IV programs during that year.
- The school would be subject to a loss of eligibility due to its cohort default rate if it adds the location.
- The school has been notified by the Department that it must apply for approval of an additional location.

This change is effective for school locations added on or after July 1, 2001.

A school must apply to the Department and wait for approval to convert an eligible location to a branch campus. The school may continue to deliver Title IV funds to students attending that location. This change is applicable to schools that convert an eligible location to a branch campus on or after July 1, 2001.

A school must apply to the Department to increase the level of program offering (e.g., offering graduate degree programs when it previously offered only baccalaureate degree programs) and obtain approval before delivering Title IV funds to students enrolled in the new programs at the increased level. This change is effective for schools increasing the level of program offering on or after July 1, 2001.

A school may enter into a single written agreement with a study-abroad organization representing one or more foreign schools rather than a separate agreement with each individual foreign school that its students attend. This clarification is effective for written agreements consummated by schools on or after July 1, 2001, or implemented at the school's discretion on or after November 1, 2000.

Private nonprofit, private for-profit, and public schools that experience a change of ownership resulting in a change in control and schools that change status as nonprofit, for-profit, or public schools may continue eligibility by submitting an E-App to the Department. In response to a school's application, the Department may approve a provisional Program Participation Agreement (PPA) (previously referred to as a TPPPA). To obtain an extension of the provisional PPA prior to its expiration, the school must provide to the Department a "same day" balance sheet, required documentation of accrediting agency and state licensing approval, and a default management plan (unless the school is exempt from providing the plan). This change is applicable to private nonprofit, private for-profit, or public schools that experience a change of ownership resulting in a change of control or to schools that change status as nonprofit, for-profit, or public schools on or after July 1, 2001, unless implemented earlier.

A change in governance for a public school is not considered to be a change of ownership that results in a change in control if the school remains a public school after the change and the new governing authority is in the same state and has acknowledged the school's continued responsibilities under its Program Participation Agreement

(PPA). A public school must, within 10 days of a change in governance, report the change to the Department and each applicable guarantor. This change is applicable to a school's reporting of changes for the purpose of maintaining eligibility on or after July 1, 2001.

School reporting requirements for the purpose of maintaining eligibility on or after July 1, 2001, include the reporting of decreases in levels of program offering and changes in the governance of a public school. Periods of time counted toward a "week of instruction" may include only preparation for final examination occurring after the last scheduled day of classes for a payment period. In addition, homework has been added to the list of activities that are not considered as instructional time. This change applies to a "week of instruction" as determined by the school for purposes of establishing or maintaining school program eligibility on or after July 1, 2001.

*False certification loan discharge:* The guarantor or Department may initiate a false certification discharge process if either possesses knowledge of false certification eligibility. If the guarantor or Department initiates the discharge process, the borrower may not be required to complete, and the lender may not be required to submit, a discharge request. This clarification is effective for discharge eligibility determined by the guarantor or Department on or after July 1, 2001, unless implemented earlier by the guarantor.

*Financial aid transcript (FAT):* Schools are no longer required to respond to a paper financial aid transcript request for a prior-year or current-year transfer student, unless it is a request to report assistance that a student has received through the Department of Health and Human Services. The elimination of paper financial aid transcripts is effective for requests received by the school on or after July 1, 2001.

*Forbearance:* A lender must grant a mandatory forbearance annually, at the borrower's request, while the borrower maintains eligibility for loan forgiveness under the Teacher Loan Forgiveness Program. The lender must also grant a forbearance for a period not to exceed 60 days while the lender is awaiting a completed Teacher Loan Forgiveness Application from the borrower. In addition, after receiving the application, the lender must grant a forbearance to cover the period needed by the guarantor to determine the borrower's eligibility for forgiveness. The forbearance begins on the date the lender receives the completed Teacher Loan Forgiveness Application and ends on the date the lender receives a denial of the request or the loan forgiveness amount from the guarantor. This change applies to forbearance requests granted by the lender on or after July 1, 2001, unless implemented earlier by the guarantor.

*Interest rates:* Beginning July 1, 2001, the variable interest rate for PLUS and SLS loans first disbursed during the period beginning July 1, 1987, and ending June 30, 1998, will be adjusted annually on July 1, and calculated by adding 3.1% or 3.25%, as applicable, to the weekly average one-year constant maturity Treasury yield, as published by the Board of Governors of the Federal Reserve System, for the last calendar week ending on or before June 26 of that year.

*Late disbursement:* A lender, when knowingly making a late disbursement on or after July 1, 2001, is no longer required to provide a notice to the school indicating that the loan proceeds should be delivered as a late disbursement.

*Loan guarantee:* Guarantors will pay ineligible borrower claims at 98% rather than 100%. This change is effective for ineligible borrower claims received by the guarantor on or after July 1, 2001, unless implemented earlier by the guarantor.

*Notification to borrower and student:* A school that credits a student's school account with Stafford or PLUS loan proceeds and sends the student or parent borrower the required notification electronically, must also confirm receipt of the electronic notification by the student or parent borrower and maintain documentation of that confirmation. This requirement applies to electronic notifications sent by the school on or after July 1, 2001.

*PLUS credit check:* In those cases in which a lender approves a PLUS loan for an applicant with an adverse credit history, the lender must retain a record supporting its decision based on extenuating circumstances. This requirement is effective for PLUS loans made on or after July 1, 2001, unless implemented earlier by the lender.

*Teacher Loan Forgiveness:* The new Teacher Loan Forgiveness Program requirements replace prior references and requirements related to the Loan Forgiveness Program for Teachers. Under the Teacher Loan Forgiveness Program, the Department repays all or a portion of a borrower's Stafford loan obligations, and Consolidation loan obligations to the extent that a Consolidation loan repaid a borrower's Stafford loans. The Department will repay, on behalf of a qualified borrower, no more than a combined total of $5,000 under both the FFELP and FDLP for outstanding principal and accrued interest on his or her qualifying Stafford loans, or the outstanding portion of a Consolidation loan used to repay qualifying Stafford loans,

at the end of the 5th complete year of teaching. The loan for which forgiveness is sought must have been made before the end of the 5th year of qualifying teaching service. After completing the qualifying teaching service, a borrower may request loan forgiveness by completing a Teacher Loan Forgiveness Application and forwarding it to the lender or guarantor. The lender must forward the borrower's completed application, including any supporting documentation, to the guarantor no later than 60 days after the lender received the application. After the guarantor notifies the lender of its determination of the borrower's eligibility for loan forgiveness, the lender must inform the borrower of the determination within 30 days. If loan forgiveness is granted and a loan balance remains, the lender must also provide the borrower with information regarding new repayment terms. If the lender files a request for payment later than 60 days after it receives the completed Teacher Loan Forgiveness Application, the lender must repay all interest and special allowance received on the forgiven loan amount for periods after the expiration of the 60-day filing period. The lender is prohibited from collecting this interest from the borrower. These provisions are effective for Teacher Loan Forgiveness Applications received by the lender on or after July 1, 2001, from a "new borrower" on or after October 1, 1998, who has been employed as a full-time teacher for 5 consecutive, complete years, as long as one of the years is after the 1997-1998 academic year— unless implemented earlier by the guarantor.

*Unpaid refund discharge:* If the guarantor and the borrower are unable to resolve an unpaid refund with an open school and the borrower has ceased to attend the school that owes the refund, the guarantor must approve the request within 120 days of the date the guarantor receives the completed unpaid refund discharge request, rather than 120 days from the date the borrower submits the request. This provision is effective for completed unpaid refund discharge requests received by the guarantor on or after July 1, 2001.

To be considered for an unpaid refund discharge, a borrower must declare that he or she, or the student in the case of a PLUS loan, received at least part of the proceeds of a FFELP loan on or after January 1, 1986. This provision is effective for completed unpaid refund discharge requests received by the guarantor on or after July 1, 2001.

### July 27, 2001

*Child-care provider loan forgiveness:* A borrower may qualify for mandatory forbearance by performing service under the Loan Forgiveness Demonstration Program for Child Care Providers. A lender must grant forbearance to a borrower who is performing a service that would qualify the borrower for forgiveness under the Loan Forgiveness Demonstration Program for Child Care Providers, unless the borrower has been granted a deferment for the service period. Before granting this forbearance to a borrower, the lender must receive a completed FFELP Child Care Provider Loan Forgiveness Forbearance Form. This change is effective on child care provider loan forgiveness forbearances granted by a lender to initial applicants on or after July 27, 2001, and to renewal applicants on or after August 29, 2002.

### August 21, 2001

*Forbearance:* After a lender receives reliable but unofficial notification of a borrower's or dependent student's death, the lender must grant a mandatory administrative forbearance, for a period not to exceed 60 days, until the lender receives documentation of the death. This forbearance does not require a written request nor is the lender required to notify the borrower or endorser that a mandatory administrative forbearance was granted. The lender may grant an administrative forbearance for up to an additional 60 days if more time is needed to obtain this documentation. This additional forbearance does not require a written request, but the lender is required to send notice to the borrower or endorser that the additional period of administrative forbearance was granted. This provision is effective for reliable but unofficial notifications of a borrower's or, in the case of a PLUS loan, the borrower's or dependent student's death received by the lender on or after August 21, 2001.

## 2002

### January 1, 2002

*Bankruptcy:* If a bankruptcy action does not require the filing of a claim with the guarantor, the lender may—but is not required to—make subsequent disbursements of a loan. If the lender chooses not to make the remaining disbursements, the lender must notify the school, the borrower, and the guarantor of the disbursement cancellations. The lender also must notify the borrower that he or she may reapply for the loan funds in the same amount that was not disbursed. If the lender cancels any of the undisbursed or undelivered funds because of a bankruptcy action, the lender must agree to make a new loan for the amount that was canceled or any remaining loan eligibility as determined by the school. This clarification is effective for bankruptcy notices received by the lender on or after January 1, 2002, unless implemented earlier by the guarantor.

*Common forms:* The common Consolidation loan forms, issued by the Department in October 2000 in GEN-00-16, are required for all Consolidation loan applications signed by borrowers on or after January 1, 2002.

The Common Claim Initiative (CCI) establishes new, standard formats for lenders to use when requesting default aversion assistance and claim reimbursement. To standardize the claim filing process for lenders, the *Common Manual* guarantors have adopted a common Claim Form and related common policies. 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.

A guarantor establishes the date on which it is ready to trade CCI electronic records with its trading partners (i.e., lenders and servicers). This date is referred to as the "G" date. All guarantor "G" dates will be established based on the final publication of the CCI electronic formats, with one "G" date for default aversion assistance and another "G" date for claims. The final "G" date for implementing the Default Aversion Assistance Request Form and its related policies was January 5, 2001.

Regarding the Claim Form and its related policies, the earliest "G" date that a guarantor may establish is six months after the final release of the CCI claim documentation. All CCI trading partners (i.e., lenders, servicers, and guarantors) will be provided a window of nine months from each guarantor's "G" date to start reporting data using the CCI electronic format. Therefore, the claim effective date will be the guarantor's "G" date plus nine months.

| | |
|---|---|
| July 1, 2001 | Claim documentation released |
| January 1, 2002 | Earliest guarantor "G" date |
| September 30, 2002 | Earliest required implementation date |
| September 30, 2002 | Latest guarantor "G" date |
| June 30, 2003 | Latest required implementation date |

*Repayment terms:* "New borrowers" on or after October 7, 1998, may qualify for an extended repayment schedule if they have multiple lenders and more than $30,000 in outstanding principal and interest in FFELP loans. A lender must retain a record of the basis for determining a borrower's eligibility for an extended repayment schedule, if the total loan amount it holds is not more than $30,000. This change is effective for extended repayment schedules disclosed on or after January 1, 2002.

### January 2, 2002

*NSLDS:* The Department of Education updated the National Student Loan Data System (NSLDS) Enrollment Reporting process effective January 2, 2002, to enhance both the batch process of enrollment records and the NSLDS/FAP Website for financial aid professionals. The Department also renamed the former *SSCR Users Guide* the *NSLDS Enrollment Reporting Guide*.

### April 1, 2002

*NSLDS:* The National Student Loan Data System (NSLDS) no longer requires a school to report directly to the NSLDS any changes to student identifiers including a student's name, date of birth, and Social Security number (SSN). Instead, the school must report these changes to the guarantor. This change is effective for student identifier changes received on or after April 1, 2002.

### July 1, 2002

The Department issues DCL GEN-02-03, which provides clarification regarding the implementation of the total and permanent disability discharge regulations that are effective July 1, 2002.

*Bankruptcy:* A bankruptcy claim and proof of claim, if applicable, must be filed with all required documents within 30 days after the lender's receipt of the Notice of the First Meeting of Creditors or other confirmation issued by the debtor's attorney or the bankruptcy court, or within 30 days after the date the guarantor provides the lender with bankruptcy information and instructs the lender to file a bankruptcy claim, whichever is earlier. This provision is effective for bankruptcy notifications received by the lender on or after July 1, 2002, unless implemented earlier by the guarantor.

If the guarantor purchases a default claim and later receives documentation that the date of the bankruptcy petition preceded the date of the default (the 270th day of delinquency), the lender will be required to repurchase the loan unless the loan is determined by the court to be dischargeable in the bankruptcy action. The lender is not required to repurchase a claim for a loan that is filed as a default claim and the date of default precedes the petition date. This policy is effective for bankruptcy petitions received by the guarantor on or after July 1, 2002, unless implemented earlier by the guarantor.

If a borrower's bankruptcy action will not result in the lender filing a claim with the guarantor and the lender chooses to make subsequent disbursements of the loan, then the lender must not ask the school to return any loan funds not yet delivered by the school to the borrower. This provision is effective for bankruptcy notices received by the lender on or after July 1, 2002, unless implemented earlier by the guarantor.

*Common Forms:* The Common Claim Initiative (CCI) establishes new, standard formats for lenders to use when requesting default aversion assistance and claim reimbursement. To standardize the supplemental claim filing process for lenders, the *Common Manual* guarantors have adopted a common Supplemental Claim Form and the following related common policies:

- The lender may not file a supplemental claim for less than $50. This amount may include principal, interest, or both.

- The lender must submit the common Supplemental Claim Form to request claim payment increases.

This policy is effective for supplemental claim requests filed by the lender on or after July 1, 2002, unless implemented earlier by the guarantor.

The National Council of Higher Education Loan Programs (NCHELP) Program Operations Committee's Default Aversion and Claims Standardization (DACS) Workgroup has revised the Supplemental Claim Form to coordinate the language with the terminology of the other CCI forms. For lenders filing supplemental claims under the CCI, the chart of data elements has been revised to coordinate with the revisions made to the Supplemental Claim Form. In addition, the requirement that a lender provide the date the lender or servicer prepared the form has been deleted. The revisions are effective for supplemental claims filed under the CCI by the lender on or after July 1, 2002.

*Disability discharge (total and permanent):* Effective for total and permanent disability discharge determinations made by the lender on or after July 1, 2002:

- **General Discharge Requirements for Total and Permanent Disability Claims**

  A borrower's obligation to repay a loan may be discharged if a doctor of medicine or osteopathy, legally authorized to practice in a state, certifies that the borrower is totally and permanently disabled, but does not assume the loan is canceled in this case. In addition, the criteria for establishing the borrower's eligibility for discharge provide that the borrower is not considered totally and permanently disabled on the basis of a condition that existed at the time the loan was made, rather than before he or she applied for the loan.

- **Borrower Notification Requirements after Total and Permanent Disability Claim Filing**

  If the guarantor pays the claim, the lender must notify the borrower that the loan will be assigned to the Department for determination of eligibility for a total and permanent disability discharge. If the guarantor determines that the borrower is not eligible, the claim will be returned to the lender with an explanation of the reason for the denial. The lender must notify the borrower that the application for a disability discharge has been denied. The notification to the borrower must include the basis for the denial and inform the borrower that the lender will resume collection on the loan.

- **Borrower Payments and the Conditional Disability Discharge**

  At the time the claim is filed, the lender must provide the guarantor with a record of any payments received after the date, certified by the physician, that the borrower became unable to work and earn money (i.e., the date of total and permanent disability). Under the new regulatory requirements, the borrower will not be eligible for a refund of these payments until after the 3-year "conditional" discharge period. In addition, the Department of Education, rather than the lender or guarantor, will make this refund.

Completed total and permanent disability discharge requests received by the lender on or after July 1, 2002, and subsequently paid as a claim by the guarantor, are permanently assigned to the Department. If the Department determines that the certification and information provided by the borrower do not support the conclusion that the borrower meets the criteria for a total and permanent disability discharge, the Department notifies the borrower that the application for a disability discharge has been denied and that the loan is due and payable under the terms of the promissory note.

If the Department makes an initial determination that the borrower is totally and permanently disabled, the Department notifies the borrower that the loan is conditionally discharged and that the conditional discharge period will last for up to 3 years after the date the borrower became totally and permanently disabled, as certified by the

physician. The Department's notification specifies that all or part of the 3-year period may predate the Department's initial determination, and identifies the following conditions that apply during the 3-year conditional discharge period:

- The borrower is not required to make any payments on the loan.
- The borrower is not considered delinquent or in default on the loan, unless the borrower was delinquent or in default at the time the conditional discharge was granted.
- The borrower must promptly notify the Department of any changes in address or phone number.
- The borrower must promptly notify the Department if his or her annual earnings from employment exceed 100% of the poverty line for a family of two.
- The borrower must provide the Department, upon request, with additional documentation or information related to the borrower's eligibility for a total and permanent disability discharge.
- The borrower must not receive a new loan under the Federal Perkins Loan Program, the FFELP, or the Federal Direct Loan Program, except for a FFELP or Direct Consolidation loan that does not include any loans that are in a conditional discharge status.

The Department also notifies the borrower that, if at any time during the 3-year conditional discharge period, the borrower does not continue to meet the eligibility requirements for a total and permanent disability discharge, the Department will resume collection activity on the loan but will not require the borrower to pay any interest that accrued on the loan from the date of the initial determination of total and permanent disability through the end of the conditional discharge period.

*Due diligence:* If a lender determines that a borrower does not meet the definition of totally and permanently disabled, or if a lender does not receive the physician's certification of total and permanent disability within 60 days of the receipt of the physician's written request for additional time, the lender must resume collection activity and treat the loan as though forbearance had been granted during this period. This policy is effective for total and permanent disability discharge requests received by the lender on or after July 1, 2002.

*Forbearance:* Guarantors will continue to permit a lender to grant an administrative forbearance if the lender receives reliable information indicating that a borrower has become totally and permanently disabled. The lender may grant the borrower an administrative forbearance, not to exceed 60 days, until the lender receives certification of the borrower's total and permanent disability. In addition, if the lender does not grant the borrower an administrative forbearance, the lender must continue collection activity until it receives the certification—or until it receives a physician's "written request," rather than a specific "letter," that additional time is needed to determine whether the borrower is totally and permanently disabled. This policy is effective for total and permanent disability discharge requests received by the lender on or after July 1, 2002.

*Eligibility – borrower and student:* A borrower who has received a conditional discharge of a prior loan due to an initial determination that the borrower is totally and permanently disabled must do all of the following to be eligible to receive a new Stafford or PLUS loan:

- Obtain a physician's statement certifying that the borrower may now engage in "substantial gainful activity." For these purposes, "substantial gainful activity" is defined as the ability to work and earn money.
- Sign a statement acknowledging that any loan that has been conditionally discharged may not be discharged due to the same or any disability existing at the time the borrower applied for a total and permanent disability discharge or when the new loan is made, unless the disabling condition substantially deteriorates to the extent that the definition of total and permanent disability is met.
- Sign a statement acknowledging that collection activity will resume on any loans in a conditional discharge period.

The borrower's receipt of a new Stafford or PLUS loan terminates the borrower's conditional discharge and the Department reinstates collection activities on any loan on which collection activity had been previously suspended based on an initial determination of total and permanent disability. This policy is effective for Stafford and PLUS loan eligibility determinations made on or after July 1, 2002.

Some states issue a secondary school completion credential to home-schooled students. If this is the case in the state in which the student was home-schooled, the student must obtain this credential in order to qualify for Title IV aid. Effective on or after July 1, 2002.

*Loan origination:* A borrower may grant power of attorney to a third party to sign a Master Promissory Note (MPN) if the borrower provides the school with a separate written authorization to credit the funds to the student's school account. When a third party using power of attorney signs the MPN on the borrower's behalf, the school must pay any credit balance to the student or parent borrower, as applicable, using a check or other instrument that requires the borrower's endorsement. If the MPN is submitted through the school, the school must retain a copy of the original power of attorney and either the school or the individual with power of attorney must provide a copy of the power of attorney document to the lender—a photocopy or fax of the document is acceptable. Information permitting the use of power of attorney is effective July 1, 2002, unless implemented earlier by the guarantor.

**August 15, 2002**

The Department issues DCL GEN-02-05, which provides the following approved loan discharge application forms that must be used on or after August 15, 2002.

- Loan Discharge Application: School Closure – for use by borrowers who are unable to complete their program of study because their school closed.
- Loan Discharge Application: False Certification of Ability to Benefit – for use by borrowers whose ability to benefit was falsely certified by their school.
- Loan Discharge Application: False Certification (Disqualifying Status) – for use by borrowers whose eligibility was falsely certified by their school due to a disqualifying status or condition of the student.
- Loan Discharge Application: False Certification (Unauthorized Signature/Unauthorized Payment) – for use by borrowers when there was an unauthorized signature or endorsement of an unauthorized payment by the school.

**August 29, 2002**

*Child care provider loan forgiveness:* Loan forgiveness under the Loan Forgiveness Demonstration Program for Child Care Providers is contingent upon annual appropriations. In addition to the other eligibility requirements for this program is the condition that the borrower's eligible loans must have been made before the borrower began his or her qualifying child care service. In addition, the borrower's degree must be an associate's or bachelor's degree in early childhood education, child care, or any other educational area related to child care that the Department deems appropriate. This change is effective beginning August 29, 2002.

**September 30, 2002**

The Department issues DCL GEN-02-06 announcing the expiration of two statutory exceptions available to low cohort default rate schools, specifically, the exemptions from the multiple disbursement and delayed delivery requirements.

**October 1, 2002**

*Disbursement rules:* The references to the statutory exceptions authorized in HEA §428G(a)(3) and (b)(1) are eliminated. These exceptions had waived, for schools with low cohort default rates, the multiple disbursement requirement for a single-term loan and the 30-day delayed delivery requirement for a first-year undergraduate student who is a first-time borrower. The statutory authority for these exceptions expired on September 30, 2002. This change is effective for loans certified on or after October 1, 2002.

*Special allowance:* Quarterly billings submitted by the lender on or after October 1, 2002, must be made using the paper Lender's Interest and Special Allowance Request and Report (LaRS report) or via the electronic LaRS process. This change is effective for quarterly billings submitted by a lender on or after October 1, 2002.

**November 1, 2002**

*Repayment start:* When establishing the next payment due date on a PLUS or SLS loan following a period of forbearance, deferment, or post-deferment grace, the lender may provide the borrower a due date that is no later than 60 days after the end of the forbearance, deferment, or post-deferment grace period. The due date may be later than 60 days if the borrower makes a prepayment during the period that advances the due date. This policy is effective for next payment due dates for PLUS and SLS loans established by the lender on or after November 1, 2002.

When establishing the next payment due date on a Stafford loan following a period of forbearance, deferment, or post-deferment grace, the lender must provide the borrower a due date that is no later than 60 days after the end of the forbearance, deferment, or post-deferment grace period. Lenders also are required to establish a first payment due date no later than 60 days after the repayment start date. This policy is effective for first payment due dates and next payment due dates established by the lender on or after November 1, 2002.

Due dates are also revised following a lender's reconversion of loans when certain claim-type activity is involved. Effective for next payment due dates established by the lender on or after November 1, 2002:

- When notified that a bankruptcy action has concluded on a loan that was not eligible for bankruptcy claim payment, a lender must establish a next payment due date that is within 60 days of the date the lender receives that notification.

- When the lender receives a full payment or a signed repayment agreement on a loan that has lost its guarantee, the lender must establish a next payment due date that is within 60 days of the date that payment or signed repayment agreement is received.

### November 27, 2002

*Eligibility – borrower and student:* An underage home-schooled student is considered beyond the age of compulsory school attendance in the state in which the postsecondary school is located if that state does not consider the student to be truant once he or she has completed a home-school program, or if that state would not require the student to attend school or continue to be home-schooled.

## 2003

### January 1, 2003

*Claim filing requirements:* When reporting a loan's loss of guarantee or reinstatement of that guarantee, lenders are to utilize existing National Student Loan Data System (NSLDS) requirements. In addition, lenders are required to ensure that, if the guarantor does not utilize the lender's NSLDS reporting data to update its records, the guarantor is notified of the loan's loss of guarantee and the reinstatement of that guarantee at the time each of those events occur or are identified. The lender must also include the curing instrument or a legible copy of the curing instrument in any claim filed after the guarantee reinstatement. This change is effective for guarantee reinstatements completed by the lender on or after January 1, 2003, unless implemented earlier by the guarantor.

*Common forms:* The Department issues DCL GEN-02-07 announcing approval of the revised Federal Stafford Loan Master Promissory Note (Stafford MPN) that must be provided to Stafford loan borrowers beginning January 1, 2003.

### March 1, 2003

*Loan certification:* All schools located in the United States, unless notified otherwise by the Department, are authorized to offer the multi-year feature of the Federal Stafford Loan Master Promissory Note (Stafford MPN). This extension has a retroactive feature. Schools that are not four-year colleges or graduate or professional schools may certify Stafford loans on or after March 1, 2003, regardless of the loan period covered by the loan, using the Stafford MPN. A borrower attending a school may receive loans for subsequent academic years based on a previously signed Stafford MPN even if the borrower signed the MPN before March 1, 2003. This change is effective for Stafford loans certified by the school on or after March 1, 2003, regardless of the loan period.

### March 3, 2003

*Disability discharge (total and permanent):* If a lender receives a payment from or on behalf of a borrower after the lender has filed a total and permanent disability claim and the claim has been paid, the lender is no longer required to notify the borrower, or other party who sent the payment on the borrower's behalf, that there is no obligation to make further payments. The *Responses to Total and Permanent Disability Outstanding Issues* letter received on March 3, 2003, from Jeff Baker, Program Development, U.S. Department of Education, clarifies in Q&A #2 that the lender is required only to forward to the guarantor a payment received from or on behalf of the borrower after it has filed a total and permanent disability claim and received the claim payment. The Department acknowledges in this letter that requiring both the lender and guarantor to provide a notice to the party who submitted the payment is duplicative.

*Loan certification:* A school may certify a borrower's eligibility for a Stafford or PLUS loan retroactive to the beginning of the current period of enrollment for a student or parent borrower, as applicable, who, for example, requests a loan during the second or subsequent payment period in the period of enrollment. A school may also certify a borrower's eligibility for a Stafford or PLUS loan retroactive to the beginning of the current period of enrollment in situations where a student or parent borrower, as applicable, regains eligibility after an earlier loss of eligibility for certain reasons.

*Loan period:* A school may include a retroactive portion of the current period of enrollment in a Stafford or PLUS loan period only if the student attended and completed that retroactive period.

**March 14, 2003**

*Deferment:* A borrower may request that the period of an initial unemployment deferment begin on a date that is *later* than the date on which he or she would otherwise be entitled. In addition, the ending of the condition that entitled the borrower to the deferment is one of the events that determines the end date of an unemployment deferment period. This change is effective for unemployment deferment requests processed by the lender on or after March 14, 2003.

**March 25, 2003**

The Department issues DCL GEN-03-06 announcing administrative relief for students and borrowers affected by military mobilization.

**March 31, 2003**

*Common forms:* Lenders must send borrowers requesting discharge due to a total and permanent disability the Loan Discharge Application: Total and Permanent Disability or other form(s) approved by the Department, as specified in DCL GEN-02-12.This change is effective on total and permanent disability discharge applications provided to borrowers by the lender on or after March 31, 2003.

**April 1, 2003**

*Disability discharge (total and permanent):* If a lender receives a payment from or on behalf of a borrower after the lender has filed a total and permanent disability claim but before the claim payment is received, the lender must forward the borrower payment to the guarantor and notify the borrower or other party who sent the payment that there is no obligation to make further payments, unless otherwise directed. This change is effective for borrower payments received by the lender on or after April 1, 2003, unless implemented earlier by the guarantor.

**April 18, 2003**

*Loan certification:* A school may not have a general policy that limits borrowing to the amount needed to cover school charges or limits unsubsidized Stafford loan borrowing by independent students.

**May 14, 2003**

*Teacher loan forgiveness:* A lender should not consider the time that a borrower is on active duty as a result of a military mobilization as an interruption in the 5 consecutive, complete academic years that a borrower must serve as a full-time teacher at a qualifying school to be eligible for teacher loan forgiveness. This applies to a borrower who is a member of a reserve component of the Armed Forces and is called or ordered to active duty for more than 30 days, and to a borrower who is a regular active duty member of the Armed Forces and is reassigned to a different duty station for more than 30 days. This change is effective on Teacher Loan Forgiveness Applications submitted by the lender to the guarantor on or after May 14, 2003.

**June 16, 2003**

*Audit:* A school participating in a Title IV program is required to submit audited financial statements and compliance audits to the Department electronically through eZ-Audit. A nonprofit or public school must submit copies of the A-133 reports in writing to the Federal Audit Clearinghouse, in addition to submitting the A-133 reports to the Department through eZ-Audit.

**July 1, 2003**

The Department issues DCL GEN-03-04 announcing the approval of the revised unemployment deferment and economic hardship deferment forms. These forms must be used in response to borrower requests received on or after July 1, 2003.

*Ability to benefit:* The requirement for a student to take and pass an approved, properly administered ability-to-benefit (ATB) test during the 12-month period prior to receiving Title IV aid has been eliminated. A passing score received by the student at any time prior to the student's receipt of Title IV aid is acceptable, provided that the school obtains the test results from the test publisher or assessment center. This change is effective on official notification of a student's ability to benefit accepted by the school on or after July 1, 2003, unless implemented earlier by the school. Schools may implement these provisions no earlier than November 1, 2002.

*Authorizations and certifications:* If a school uses electronic transmission to notify the student or parent borrower that it has credited the student's school account with Stafford or PLUS loan proceeds, the school is no longer required to confirm and document the student or parent borrower's receipt of this notice. This change is effective on notices issued by the school on or after July 1, 2003, unless implemented earlier by the school. Schools may implement this provision no earlier than November 1, 2002.

*Claim filing requirements:* A lender that files its claims using the common Claim Form is not required to provide any other information or certifications. This change is effective for claims filed by the lender on or after July 1, 2003, unless implemented earlier by the guarantor.

*Claim payment:* Guarantors are required to purchase an approved total and permanent disability claim or return the claim no later than 90 days after the claim was received by the guarantor. This change is effective for total and permanent disability claims received by the guarantor on or after July 1, 2003, unless implemented earlier by the guarantor.

*Closed school loan discharge:* Lenders are no longer required to provide the "true and exact" certification of a copy of a promissory note provided in a claim file. This change is effective on claims filed by the lender on or after July 1, 2003, unless implemented earlier by the lender. Lenders may implement these provisions no earlier than November 1, 2002.

*Common forms:* The Department issues DCL GEN-03-03 announcing approval of the Federal PLUS Loan Application and Master Promissory Note (PLUS MPN) that may be used for PLUS loans certified by the school for loan periods beginning on or after July 1, 2003. The PLUS MPN must be used for loan periods beginning on or after July 1, 2004, or for any loan certified on or after July 1, 2004, regardless of the loan period.

*Death discharge:* The underlying portion of a Federal Consolidation loan may be discharged under the following circumstances:

- The underlying portion of a Consolidation loan attributable to a PLUS loan obtained for a dependent student is eligible for discharge if that student dies. The borrower of the Consolidation loan (or both comakers in the case of a joint Consolidation loan made to a married couple) is obligated to repay the remaining Consolidation loan balance.

- Upon the death of one of the comakers of a joint Consolidation loan made to a married couple, the portion of the Consolidation loan attributable to the comaker who has died is eligible for discharge. The surviving comaker is obligated to repay the remaining Consolidation loan balance.

This change is effective on death claims filed by the lender on or after July 1, 2003, unless implemented earlier by the lender. Lenders may implement these provisions no earlier than November 1, 2002.

*Deferment:* Borrowers may provide evidence of eligibility for unemployment benefits or may certify that they are currently seeking full-time employment and making all required attempts to obtain full-time employment. Borrowers are no longer required to provide information regarding potential employers contacted during the job search or to document the employment agency with which they are registered. Borrowers must certify—in writing or in a format approved by the Department—that they are registered with an employment agency if one is available within 50 miles of their current address, and that they have made six diligent attempts in the preceding 6-month period to find full-time employment. Borrowers applying for an initial period of unemployment deferment are not required to certify that they have made attempts to obtain full-time employment.

An initial period of unemployment deferment based on the borrower's self-certification may be backdated up to 6 months prior to the date the lender receives the necessary documentation from the borrower, and must be scheduled to end no later than 6 months after the date the lender receives required documentation. An extension to an unemployment deferment and any unemployment deferment based on the borrower's eligibility for unemployment benefits is not subject to the 6-month backdating limitation. An extension of a deferment may be granted for up to 6 months following the date the borrower provides the lender with evidence or certification of deferment eligibility. These changes are effective for borrower requests processed by the lender on or after July 1, 2003, unless implemented earlier by the lender. Lenders may implement these provisions no earlier than November 1, 2002.

For an economic hardship deferment, if the borrower's loans are scheduled to be repaid in 10 years or less, the lender must use the actual repayment amount in determining the borrower's federal postsecondary education debt burden. If the borrower's loans are scheduled to be repaid in more than 10 years, the lender must use the monthly payment amounts that would have been owed on federal postsecondary education loans based on a 10-year repayment schedule. Lenders must continue to count a proportional share of any payments due—or that would have been due—less frequently than monthly, and must include payments due on a defaulted loan if the borrower has made repayment arrangements satisfactory to the holder of the defaulted loan. This change is effective for borrower requests processed by the lender on or after July 1, 2003, unless implemented earlier by the lender. Lenders may implement these provisions no earlier than November 1, 2002.

*Delivering loan funds:* A student who is enrolled in a modular program is not eligible to receive Stafford loan funds until the first module that he or she will actually attend. A borrower subject to delayed delivery who is enrolled in a summer or winter module that is less than 30 days in length is not eligible to receive Stafford loan funds until the student completes the first 30 days of his or her program of study. This change is effective loan funds delivered by the school on or after July 1, 2003.

*Disability discharge (total and permanent):* If a Consolidation loan is made jointly to a married couple as comakers, and one of the borrowers becomes totally and permanently disabled, the portion of the Consolidation loan attributable to the disabled borrower may be discharged. However, both borrowers remain jointly and severally liable for any remaining balance after the discharge. This change is effective on total and permanent disability claims filed by the lender on or after July 1, 2003, unless implemented earlier by the lender. Lenders may implement these provisions no earlier than November 1, 2002.

*Disbursement rules:* Upon the receipt of a school's request, the lender may reissue a disbursement no later than 120 days after the earlier of the last day of the period of enrollment for which the loan is intended or the student's last date of at least half-time enrollment. This change is effective for disbursements reissued by the lender on or after July 1, 2003, unless implemented earlier by the lender. Lenders may implement these provisions no earlier than November 1, 2002.

*Eligibility – borrower and student:* A student is allowed to maintain Title IV eligibility despite an overpayment in the Federal Perkins Loan Program or any Title IV grant program of less than $25. The overpayment amount cannot be the balance of an original overpayment of $25 or more that is reduced to less than $25 based on payments received. In this case, even though the remaining balance of the original overpayment is less than $25, the borrower is still responsible for repaying the overpayment in full or making satisfactory arrangements to repay it before the borrower can regain Title IV eligibility. This change is effective on loans certified by the school on or after July 1, 2003, unless implemented earlier by the school. Schools may implement these provisions no earlier than November 1, 2002.

A student who is enrolled simultaneously on at least a half-time basis in more than one school may be eligible to receive a Stafford loan—and the parent may be eligible to receive a PLUS loan—at both schools for the same payment period or period of enrollment. If one school has already certified a loan for the student, the other school is required to take the following actions:

- Eliminate the student's living costs from the cost of attendance (COA) because those costs were included in the COA at the first school.

- Ensure that the student does not receive loan funds in excess of annual loan limits at that school and that the total amount of the loans received by the student for enrollment at both schools does not exceed the student's highest applicable annual Stafford loan limit.

If neither school is aware of the student's simultaneous enrollment in two different schools until after both schools have certified Stafford loans and the student receives loan funds in excess of his or her highest applicable annual Stafford loan limit, the schools must coordinate with one another to adjust the student's aid package at one or both schools to eliminate the excess loan amount. If neither school is able to eliminate the excess loan amount, the excess loan amount must be reported to the lender. These changes are effective for loans certified by the school on or after July 1, 2003.

If a school's policy permits a student to self-certify completion of a secondary school education, the home-schooled student may also self-certify that he or she received a state issued secondary school completion credential in a state that issues such a credential. Effective on or after July 1, 2003.

*Eligibility – school:* A school is prohibited from providing any commission, bonus, or other incentive payment to any person or entity engaged in student recruiting or admission activities or in making decisions regarding the awarding of Title IV aid, based directly or indirectly on the success of securing enrollments or financial aid. This prohibition does not apply to the recruitment of foreign students residing in foreign countries. This change is effective for incentive compensation plans offered by the school on or after July 1, 2003, unless implemented earlier by the school. Schools may implement these provisions no earlier than November 1, 2002.

A standard definition of "week of instruction" has been implemented for all schools. A "week of instruction" is defined as any period of 7 consecutive days in which the school provides for at least one day of regularly scheduled instruction, examination, or, after the last day of classes, at least one day of study in preparation for final examination. This change is effective for program eligibility determinations made by a school on or after July 1, 2003,

unless implemented earlier by the school. Schools may implement these provisions no earlier than November 1, 2002.

*Entrance counseling:* Schools must ensure that entrance counseling is conducted 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. When counseling is conducted by another party or by interactive electronic means, the school remains responsible for ensuring that each student borrower receives the counseling material and participates in and completes entrance counseling. Schools are responsible for ensuring that the student receives information on the following:

- The likely consequences of default, including adverse credit reports, federal offset, and litigation.
- The student's obligation to repay the full amount of the Stafford loan, even if the student does not complete the program, is unable to obtain employment upon completion, or is otherwise dissatisfied with or does not receive the educational or other services that the student purchased from the school (the school or the school designee must provide this information to all of the school's student borrowers except those who receive a loan made or originated by the school). The student must be provided with sample monthly repayment amounts based on a range of student levels of indebtedness or on the average indebtedness of Stafford loan borrowers at the same school or in the same program of study at the same school.

This change is effective entrance counseling conducted by or on behalf of the school on or after July 1, 2003, unless implemented earlier by the school. Schools may implement these provisions no earlier than November 1, 2002.

*Exit counseling:* Schools must ensure that exit counseling is conducted with each Stafford loan borrower shortly before the student borrower ceases enrollment on at least a half-time basis, recognizing that a school may rely on an outside entity to conduct counseling. When exit counseling is conducted by interactive electronic means or by another party, the school remains responsible for ensuring that each student borrower receives the counseling materials and participates in and completes the counseling. Schools are responsible for ensuring that the student borrower receives information on the following:

- Sample monthly repayment amounts based on a range of levels of student indebtedness or on the average indebtedness of Stafford loan borrowers at the same school or in the same program of study at the same school.
- Available repayment options including standard, graduated, extended, and income-sensitive repayment plans and loan consolidation.
- Debt-management strategies that would facilitate repayment.
- The conditions under which the student may defer or forbear repayment or obtain a full or partial discharge of the loan.
- The seriousness and importance of the repayment obligation that the student has assumed.
- The likely consequences of default, including adverse credit reports, Federal offset, and litigation.
- The availability of the Student Loan Ombudsman's Office.
- The use of the Federal Stafford Loan Master Promissory Note (Stafford MPN).
- The availability of Title IV loan information in the National Student Loan Data System (NSLDS).

These changes are effective on exit counseling conducted by or on behalf of the school on or after July 1, 2003, unless implemented earlier by the school. Schools may implement these provisions no earlier than November 1, 2002.

*Forbearance:* The requirement that the forbearance agreement between a borrower or endorser and a lender for a discretionary forbearance be in writing is removed. A lender is permitted to negotiate a verbal agreement with the borrower or endorser. In addition, this change extends to the reduced-payment forbearance guarantor policy, which has been amended to permit a lender to negotiate a reduced-payment forbearance with a borrower via a verbal agreement, consistent with regulatory changes applicable to other types of discretionary forbearance.

In both situations, if the forbearance agreement is verbal, the lender is required to send, within 30 days of that agreement, a notice to the borrower or endorser confirming the terms of the agreement. The lender must document the

borrower's request for forbearance, the reason for the forbearance, and the terms of the forbearance agreement. This change is effective for borrower requests processed by the lender on or after July 1, 2003, unless implemented earlier by the lender. Lenders may implement these provisions no earlier than November 1, 2002.

Lenders are able to grant an administrative forbearance based solely on the lender's determination that a borrower's or endorser's ability to make payments has been adversely affected by a natural disaster, a local or national emergency (declared by the appropriate government agency), or a military mobilization. The lender may grant the administrative forbearance for a 3-month period and must document in the borrower's loan file the reason for the forbearance. To grant an extension of the administrative forbearance for the same situation, the lender must document an agreement with the borrower or endorser and obtain documentation supporting the borrower's reason for extending the forbearance period. This change is effective for administrative forbearances granted by the lender on or after July 1, 2003, unless implemented earlier by the lender. Lenders may implement these provisions no earlier than November 1, 2002.

The requirement that a lender contact a borrower who is in a forbearance every 3 months has been eliminated. If a lender grants a forbearance that involves postponing all payments on the loan, the lender must contact the borrower or endorser at least once every 6 months during the forbearance period. The lender must inform the borrower or endorser of all the following information in each such contact:

- The obligation to repay the loan.
- The outstanding balance of principal and interest on the loan.
- That interest will accrue on the loan for the entire forbearance period.
- That the borrower or endorser may opt to discontinue the forbearance at any time.

This notification requirement does not apply for postponement of interest payments during a deferment period, a period of forbearance for an internship or residency, or a period of mandatory administrative forbearance. This change is effective for borrower requests processed by the lender on or after July 1, 2003, unless implemented earlier by the lender. Lenders may implement these provisions no earlier than November 1, 2002.

*Late delivery:* A school must offer a late delivery of Stafford or PLUS loan funds that the student or parent borrower was eligible to receive while the student was enrolled during a payment period or period of enrollment that the student successfully completed. If a student ceases to be enrolled at least half time but does not withdraw, the school may, but is not required to, offer a late delivery of Stafford or PLUS loan funds to the student or parent borrower.

In order for a school to make a late delivery of loan proceeds, the following conditions are applicable:

- Except in the case of a PLUS loan, the Department must have processed a Student Aid Report (SAR) or Institutional Student Information Record (ISIR) with an official expected family contribution (EFC) before the student became ineligible. The requirement that the school receive a valid SAR or ISIR prior to the date the student became ineligible is eliminated.
- In the case of a second or subsequent disbursement, the student must have graduated or successfully completed the period of enrollment for which the loan was intended. In this circumstance, the school must offer the borrower the amount of Stafford or PLUS funds the student (or parent) was eligible to receive while the student was enrolled in school. The school may credit the student's account to pay for current and allowable institutional charges, but must pay or offer any remaining amount to the student or, in the case of a PLUS loan, to the parent.
- The time frame in which the school may deliver the funds is extended from 90 to 120 days from the date the school determines the student has withdrawn. If the student has not withdrawn, the school may make a late delivery of loan funds up to 120 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.
- On an exception basis, and with the approval of the Department, the school may make a late delivery of loan funds after the applicable 120-day period, if the reason the late delivery was not made within the 120-day period was not the fault of the student.

These changes are effective for late delivery of FFELP loan proceeds by the school on or after July 1, 2003, unless implemented earlier by the school. Schools may implement these provisions no earlier than November 1, 2002.

*Late disbursement:* For proceeds disbursed as a late disbursement, the lender must reissue a disbursement no later than 120 days after the date on which the original late disbursement was made. In exceptional cases, the lender may reissue a loan disbursement more than 120 days after the date on which the original late disbursement was made, 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 student and the school, and the lender should document the exceptional circumstances. This change is effective for disbursements reissued by the lender on or after July 1, 2003, unless implemented earlier by the lender. Lenders may implement these provisions no earlier than November 1, 2002.

*Leave of absence:* A school may grant multiple leaves of absence to a student as long as the total number of days for all leaves does not exceed 180 days in a 12-month period. The student's request for the leave of absence must include the reason for leave. A student enrolled in a clock-hour or non-term-based credit-hour program who returns from a leave of absence is not required to complete the same coursework she or he began prior to the leave of absence. This change is effective for leaves of absence granted by the school on or after July 1, 2003, unless implemented earlier by the school. Schools may implement these provisions no earlier than November 1, 2002.

*Loan amount:* The length of the program of study or academic year in which the student is currently enrolled determines the annual loan limit, regardless of the length of time it takes the student to complete the program or academic year of the program, as applicable. These provisions apply to all undergraduate students, including transfer students and students who have completed programs of study at other schools. In addition, a school may not link separate, stand-alone programs of study to allow a student to qualify for higher annual loan limits than the student would otherwise be eligible to receive based on the length of the program. These changes are effective on Stafford loan amounts certified by the school on or after July 1, 2003, unless implemented earlier by the school.

The Department issues DCL GEN-03-03 announcing the Federal PLUS Loan Application and Master Promissory Note (PLUS MPN) procedures for obtaining the requested loan amount from the parent borrower as one of the key items that may be included in guarantor on-site school and lender reviews. These requirements are effective for PLUS loans certified by the school for loan periods beginning on or after July 1, 2003.

*Loan guarantee:* The Department issues DCL GEN-03-03 to clarify signature requirements related to the making of PLUS loans. The revision requires the student to complete and sign the appropriate section of the common PLUS application and promissory note. However, the student is not required to complete any portion of the Federal PLUS Loan Application and Master Promissory Note (PLUS MPN). This change is effective for PLUS loans certified by the school for loan periods beginning on or after July 1, 2003.

*Loan origination:* The Department issues DCL GEN-03-03 announcing that the Federal PLUS Loan Application and Master Promissory Note (PLUS MPN) may be used to obtain one or more PLUS loans for a dependent student. A parent borrower must complete a separate PLUS MPN for each dependent student for whom he or she wishes to borrow. Before a PLUS loan may be disbursed, the parent borrower must indicate to either the school or the lender the PLUS loan amount that he or she wishes to borrow (the requested loan amount). The student is not required to complete or sign the PLUS MPN. If the lender determines that the parent has an adverse credit history and an endorser is used, a separate Endorser Addendum is required for each PLUS loan. In any case where an endorser is required, a new PLUS MPN is required for each loan. Any increase in the requested loan amount by the parent borrower must be approved by the endorser and requires a new PLUS MPN and Endorser Addendum. This policy is effective for PLUS loans certified by the school for loan periods beginning on or after July 1, 2003.

The lender has additional responsibilities when making loans using the Master Promissory Note (MPN). The lender must determine the school's authorization to certify Stafford or PLUS loans using the multi-year feature of the MPN for each subsequent loan made under an existing MPN, based on information provided by the Department. The lender must provide the borrower with a Plain Language Disclosure for each subsequent loan made under the multi-year feature of the MPN; ensure that either a Confirmation or Notification process is in place for Stafford loans made using the multi-year feature of the MPN; and ensure that a process is in place to obtain the parent borrower's requested loan amount before each loan is disbursed under a PLUS MPN.

GEN-03-03 also announces information regarding the expiration of the ability of a lender to make new loans under an MPN. In addition to the current revocation guidance, a lender may elect not to make subsequent loans under an existing MPN. The lender's decision may be based on any number of circumstances—for instance, if there is a change in the borrower's circumstances (such as bankruptcy or

delinquency), or because the loan is being requested under a Lender of Last Resort Program. If the lender chooses to cancel unmade disbursements due to a borrower's bankruptcy filing, the lender may choose to cancel an existing MPN and require the borrower to sign a new note to obtain loan funds for which the school determines the borrower to be eligible. In the case of a PLUS MPN, a new MPN is required if the dependent student changes. For each new loan that requires an endorser, a new PLUS MPN with a new Endorser Addendum is required. Any increase in the requested loan amount by the parent borrower must also be approved by the endorser and requires a new PLUS MPN and Endorser Addendum.

If a borrower has completed an MPN, the borrower may obtain additional loans under the same Stafford Master Promissory Note (Stafford MPN) or PLUS MPN, as applicable, for a student who transfers, regardless of any change in school or guarantor, provided all of the following apply:

- The new school is not a foreign school.
- The new school has not been notified of restricted multi-year use by the Department.
- The MPN remains valid.
- The new school, lender, or guarantor does not require a new MPN.
- The borrower does not choose a new lender.

If a PLUS loan is made to a parent borrower who completed a PLUS MPN to benefit a dependent student and that student transfers to a school that is not eligible to, or chooses not to, offer the multi-year feature of the PLUS MPN, or if an endorser is required, the borrower must complete a new PLUS MPN for the new school.

*Payment period:* The payment period for an eligible credit-hour program that offers academic terms (standard or nonstandard) is simply the academic term. The first payment period is the period of time when the student completes half the number of credit hours *and* half the number of weeks in the program. The payment period for clock-hour programs no longer mirrors the non-term-based credit-hour program definition. This change is effective on payment periods established by the school on or after July 1, 2003, unless implemented earlier by the school. Schools may implement these provisions no earlier than November 1, 2002.

*Post-withdrawal disbursement:* Before making a post-withdrawal disbursement of FFELP funds, the school must determine that the borrower is eligible for a late delivery. If the borrower is determined eligible for late delivery, the school must offer a post-withdrawal disbursement of FFELP funds, and if accepted, must deliver the funds to the borrower. A school must make the post-withdrawal disbursement of a credit balance within 120 days of the date that the school determined that the student withdrew. This change is effective for post-withdrawal disbursements made by the school on or after July 1, 2003, unless implemented earlier by the school. Schools may implement the post-withdrawal determination time frame change no earlier than November 1, 2002.

*Record Retention:* The Department issues DCL GEN-03-03 to announce recordkeeping requirements for loans made using the Federal PLUS Loan Application and Master Promissory Note (PLUS MPN).

Records that a lender must maintain include documentation of the process under which either the school or lender obtains the parent borrower's requested loan amount for loans made under the PLUS MPN; a record of the parent borrower's requested loan amount for loans made under the PLUS MPN, if the lender is the party responsible for obtaining this information; and a record of any adjustments that the lender receives to the parent borrower's requested loan amount.

Records that a school must maintain include documentation of the process under which either the school or lender obtains the parent borrower's requested loan amount for loans made under the PLUS MPN; a record of the parent borrower's requested loan amount for loans made under a PLUS MPN, if the school is the party responsible for obtaining this information; and a record of any adjustments that the school receives to the parent borrower's requested loan amount. These requirements are effective for PLUS loans certified by the school for loan periods beginning on or after July 1, 2003.

*Rehabilitation of defaulted loans:* A borrower who has a defaulted loan for which a judgment has been obtained is no longer permitted to include that loan in a guarantor's rehabilitation program. This change is effective on requests for loan rehabilitation received by the guarantor on or after July 1, 2003, unless implemented earlier by the guarantor. Guarantors may implement these provisions no earlier than November 1, 2002.

*Repayment terms:* A request from a borrower to extend his or her repayment period beyond the scheduled 5 years no longer must be in writing. This change is effective for borrower requests received by the lender on or after July 1, 2003, unless implemented earlier by the lender. Lenders may implement these provisions no earlier than November 1, 2002.

*Return of Title IV funds:* New federal regulations establish a clear requirement for returning unearned Title IV program funds and the conditions under which a school must submit a letter of credit if it does not return those funds in a timely manner. In addition, if a school can demonstrate exceptional circumstances beyond the school's control, the Department will not hold the school responsible for untimely return of Title IV funds and will not require the school to submit a letter of credit. Specifically, a school is considered to have sufficient cash reserves to make the required return of unearned Title IV funds if the school meets at least one of the following:

- The school satisfies the financial responsibility standards for public schools.
- The school is located in, and 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 returns in a timely manner unearned Title IV funds for students that withdraw from the school.

This change does not have an effective date as the provision will be implemented and enforced by the Department.

In accordance with the revised guidance issued by the Department of Education, there are times when a school may include FFELP funds as aid that could have been disbursed in the return of Title IV funds calculation even if the school was prohibited from delivering the funds on or before the date the student withdrew. This includes:

- Loan funds for a first-year, first-time undergraduate borrower who withdraws before completing the 30th day of his or her program of study.
- The second or subsequent disbursement(s) of a loan even if the school was prohibited from delivering the funds on or before the date the student withdrew.

However, in all cases, the following conditions for making a late disbursement must be met in order for FFELP funds to be included as aid that could have been disbursed:

- Except in the case of a PLUS loan, the Department processed a valid Student Aid Report (SAR) or Institutional Student Information Record (ISIR) with an official expected family contribution (EFC) on or before the date of the student's withdrawal.
- The school certified the loan on or before the date of the student's withdrawal.

In these cases, although the loan funds may be included as aid that could have been disbursed in the return of Title IV funds calculation, under no circumstances may the school deliver the loan funds to the borrower as a post-withdrawal disbursement.

If a school is completing the return of Title IV funds calculation on a payment period basis, FFELP funds scheduled for disbursement in a subsequent payment period may not be included as aid that could have been disbursed.

This change is effective for any student who withdraws on or after July 1, 2003.

Unearned FFELP funds are considered returned timely if, no later than 30 days after the date the school determines that the student withdrew, the school does one of the following:

- Deposits or transfers the amount of funds to be returned into an account the school maintains for federal funds (see Subsection 6.3.D).
- Initiates an electronic funds transfer (EFT) for the amount of returned funds.
- Initiates an electronic transaction that informs the lender to adjust the borrower's loan account for the amount of returned funds.
- Issues a check for the returned funds. In this case, the school's records must show that the lender's bank endorsed that check no more than 45 days after the date the school determined that the student withdrew.

This change is effective on unearned FFELP funds returned by the school to the lender on or after July 1, 2003, unless implemented earlier by the school. Schools may implement these provisions no earlier than November 1, 2002.

*Withdrawal:* A school is required to record attendance if an outside entity requires this activity even for a limited period of time. An exception to this requirement, however, is if the outside entity requires a school to record attendance for a

single event (i.e., a one-day census activity). This change is effective for all withdrawal determinations made by the school on or after July 1, 2003, or on or after the date of implementation if implemented earlier by the school. Schools may implement these provisions no earlier than November 1, 2002.

The Department of Education issued DCL GEN-04-03 and new guidance provided in the 03-04 FSA Handbook to provide more complete information about schools that are required to record attendance for a limited period of time or for a specific group of students. A school that is required to record attendance for a limited period of time must document the student's attendance through that period. If the school determines that the student is not in attendance at the end of that period, the student's withdrawal date is determined according to the requirements for a school that is required to record attendance. If the school can document the student's attendance through the period of time during which the school is required to record attendance but the student subsequently withdraws, the student's withdrawal date is determined according to the requirements for a school that is not required to record attendance. A school that is required by an outside entity (e.g., a state workforce development agency), to record attendance for a specific group of students must use the attendance records for only that specific group of students under that outside entity's jurisdiction to determine the student's withdrawal date. These provisions are effective for any student who withdraws on or after July 1, 2003.

If a student withdraws from a program but re-enters the same program within 180 days, the school is required to place the student in the same payment period in which he or she was enrolled when the withdrawal occurred. If, however, a student returns to the same program *after* 180 days or, at any time, either transfers into a different program at the same school or enrolls in another school, the applicable school must calculate a new payment period for the remainder of the student's program based on how program progress is measured. For purposes of calculating payment periods only, the length of the program is the number of credit hours and the number of weeks, or the number of clock hours, that the student has remaining in the program he or she entered or re-entered. If the remaining hours (and weeks, if applicable) constitute one half of an academic year or less, the remaining hours constitute one payment period. This change is effective on eligibility determinations made by the school on or after July 1, 2003, unless implemented earlier by the school. Schools may implement these provisions no earlier than November 1, 2002.

**July 15, 2003**

The Department issues DCL GEN-03-08 that discusses the use of long-term debt in the calculation of the Primary Reserve Ratio used to determine whether institutions demonstrate financial responsibility. This letter replaces the guidance provided by the Department in DCL GEN-01-02 and is effective for all annual financial statement audits for fiscal years ending on or after December 31, 2002.

**August 25, 2003**

The Department issues DCL L-03-242 informing lenders of actions required to assist in the oversight of FFELP funds for students attending foreign schools. The additional requirements are effective for disbursements made directly to students attending foreign schools on or after November 25, 2003.

**October 12, 2003**

The Department issues DCL GEN-03-12 that describes new procedures used by the National Student Loan Data System (NSLDS) to calculate aggregate loan limits when a student has consolidated some or all of their student loans.

**October 20, 2003**

*Consolidation loans:* Portions of a Consolidation loan that are attributed to subsidized Stafford and unsubsidized Stafford loans must be included when calculating a student's aggregate loan balance. The financial aid administrator (FAA) should use the National Student Loan Data System (NSLDS) or loan records provided by the student to determine the portion of the Consolidation loan that should be applied to the subsidized Stafford loan limit and the portion that should be applied to the unsubsidized Stafford loan limit.

**November 26, 2003**

*Disbursement rules:* Before a lender may release funds directly to a student for attendance at a foreign school, the lender must receive confirmation from the guarantor indicating that the school the student plans to attend is eligible to participate in the FFELP and that the student has been accepted for enrollment at the foreign school. In addition, the lender is required to notify the foreign school when it disburses FFELP funds directly to the student.

### December 12, 2003

The Department announces Higher Education Relief Opportunities for Students (HEROES) Act waivers in a *Federal Register* notice (Vol. 68, No. 239, issued December 12, 2003), including a number of waivers and modifications of statutory and regulatory provisions that are appropriate to assist individuals who are applicants and recipients of federal student aid under Title IV of the HEA. See Section H.4 for detailed information about the areas of Title IV administration that these waivers affect.

## 2004

### January 2004

*Disbursement rules:* Schools and lenders are prohibited from obtaining a borrower's power of attorney or other authorization to endorse or otherwise approve the cashing of a loan check, or the delivery of loan funds disbursed through electronic funds transfer (EFT). Schools and lenders are also prohibited from using a document containing the borrower's power of attorney to support another party's endorsement or other method used to approve the cashing of a loan check, or the delivery of loan funds disbursed through EFT. This change reflects a regulatory technical correction published in the *Federal Register* on December 31, 2003. The technical correction was necessary because the text was previously included in regulations but was inadvertently omitted. The changes regarding a power of attorney received by the school or lender and used to negotiate loan documents are effective on or after January 30, 2004, unless implemented earlier by the guarantor.

*Rehabilitation of defaulted loans:* A lender is required to use the loan's balance at the time it is rehabilitated when establishing the maximum repayment period for a rehabilitated Consolidation loan. This policy is effective for Consolidation loans reentering repayment after rehabilitation on or after January 30, 2004. This change is based on technical corrections to the federal regulations published in the *Federal Register* (Volume 68, number 250), page 75429, dated December 31, 2003.

### February 13, 2004

*Return of Title IV funds:* The Department of Education issues DCL GEN-04-03 to announce a revision regarding the treatment of inadvertent overpayments in the return of Title IV funds calculation. An inadvertent overpayment exists when a school delivers loan funds to a student who is no longer in attendance. When the school completes a return of Title IV funds calculation, an inadvertent overpayment must be included as "aid that could have been disbursed." Previous guidance had indicated that inadvertent overpayments were to be included as "disbursed aid." The student must qualify for a late disbursement to be eligible to retain funds that were delivered as an inadvertent overpayment. If the student is ineligible for all or a portion of the inadvertent overpayment, the school must return the ineligible amount to the lender within 30 days of the date of the school's determination that the student withdrew. This change is effective for any student who withdraws on or after February 13, 2004.

DCL GEN-04-03 and new guidance provided in the 03-04 FSA Handbook clarify that, except in unusual cases, if a student is absent without explanation, a school that is required to record attendance is expected to make a determination that the student withdrew no later than one week after the student's last date of academic attendance as determined from the school's attendance records. The school does not have to make a withdrawal determination if, during that one week period, the student verifies that he or she plans to return to school. Provisions for determining a student's withdrawal date are effective for any student who withdraws on or after February 13, 2004.

The Letter also includes guidance for schools regarding the treatment of Title IV credit balances under the return of Title IV funds requirements. If a student withdraws and has a Title IV credit balance on his or her account, the school must not deliver any portion of the credit balance to the student or return any portion to the Title IV student aid programs before it completes a return of Title IV funds calculation. The school must hold the funds even if it results in the school not being in compliance with the 14-day payment requirement for credit balances. In this case, the school does not need the student's or parent's authorization to hold the Title IV credit balance beyond the original 14-day period. However, within 14 days of the date that the school performs the return of Title IV funds calculation, the school must pay any remaining Title IV credit balance. The school must first allocate the Title IV credit balance to repay any grant overpayment owed by the student as a result of the current withdrawal. If there is no grant overpayment owed or if an additional credit balance exists on the account after the grant overpayment is repaid, it must be paid in one or more of the following ways:

- In accordance with cash management regulations, the school may use the credit balance to pay authorized charges at the school (including previously paid charges that are now unpaid due to a return of Title IV funds by the school).

- With the student's authorization, the school may use the credit balance to reduce the student's Title IV loan debt (not limited to loan debt incurred for the payment period or period of enrollment during which the student withdrew).

- The school may deliver the credit balance to the student, or the parent in the case of a PLUS loan. If the school cannot locate the student or parent to whom a Title IV credit balance is due, the school must return the credit balance to the Title IV programs. In this case, there is no specific order of return to the Title IV programs, but schools are encouraged to make determinations that are in the best interest of the individual student.

This policy is effective for students who withdraw on or after February 13, 2004, as determined by the school.

If a student is selected for verification but withdraws prior to providing all required verification documentation, the school must complete the return of Title IV funds calculation in time to comply with the 30-day return of Title IV funds deadlines. If the student did not provide the required verification documentation, the school must include as disbursed aid or aid that could have been disbursed only those funds not subject to verification (i.e., PLUS loans and unsubsidized Stafford loans) in the return of Title IV funds calculation. However, if the student subsequently provides the documentation before the verification deadline, the school is required to perform a new return of Title IV funds calculation and make the appropriate adjustments. If the school is unable to offer the post-withdrawal disbursement to the student, or parent in the case of a PLUS loan, within the required 30 days after the date that the school determined that the student withdrew, the school must offer the funds as soon as possible. Also, whenever possible, the school must provide the student or parent with the minimum 14-day period to respond to the offer of a post-withdrawal disbursement. This policy is effective for students who withdraw on or after February 13, 2004, as determined by the school.

The Letter also includes guidance for schools that offer non-term-based credit-hour programs to determine the number of calendar days in the payment period or period of enrollment. If a student withdraws from a non-term-based credit-hour program where the completion date is dependent upon an individual student's progress, the school must project the completion date based on the student's progress as of the date of his or her withdrawal to determine the total number of calendar days in the period. If the student does not earn credits or complete lessons as he or she progresses through the program, the school is required to have a reasonable procedure for projecting the completion date based on the student's progress before withdrawal. If the completion date for all students in a non-term-based credit-hour program is the same, the total number of calendar days in the period will be the same for all students. This policy is effective for students who withdraw on or after February 13, 2004, as determined by the school.

### March 2004

*Claims – returned and refiled:* If a lender is unable to provide a complete claim or if the loan is otherwise ineligible for claim payment (due, for example, to a previous, unresolved loss of loan guarantee) the claim file must be returned despite the lender's or servicer's exceptional performer designation.

### March 14, 2004

*Disability discharge (total and permanent):* A borrower is not eligible for a total and permanent disability (TPD) loan discharge if the loan has already been paid in full when the loan holder receives the borrower's TPD discharge request. Effective total and permanent disability discharge requests received on or after March 14, 2004, unless implemented earlier by the loan holder.

### July 1, 2004

*Academic year:* A borrower enrolled in a self-paced program, either a clock-hour program or a non-term-based credit-hour program, may successfully complete the number of clock or credit hours in the program's academic year in fewer than the number of weeks of instructional time in the program's academic year. If the average student successfully completes the clock or credit hours in the program in the weeks of instructional time allotted for program completion, the school is not required to prorate the Stafford annual loan limits for the occasional student who successfully completes the clock or credit hours in the program in fewer weeks of instructional time. A student enrolled in such a program that is more than one academic year in length must successfully complete the number of clock or credit hours and complete the weeks of instructional time in the program's Title IV academic year before he or she gains eligibility to receive another loan for a new BBAY. If the subsequent Stafford loan period will be an undergraduate borrower's final period of study, the school must prorate the Stafford annual loan limit. Effective with the publication date of Volume 3 of the 04-05 FSA Handbook.

A school may define a different academic year for each of two versions of the same program. If a school permits the student to enroll in coursework from both versions of the program, the school must determine the version in which the student is actually enrolled. A student must be taking at least 50% of his or her coursework from a particular version of the program in order for the school to consider the student enrolled in that version of the program. Effective with the publication date of the 04-05 FSA Handbook.

*Delivering loan funds:* When a student is enrolled in a credit-hour program offered in modules but the student will not attend the first module in a payment period, the school uses the starting date of the first module in the payment period that the school expects the student to attend to determine when Stafford or PLUS loan funds may be delivered. A borrower subject to delayed delivery who is enrolled in a module that is less than 30 days in length is not eligible to receive Stafford loan funds until the student completes the first 30 days of his or her program of study. Effective with the publication of the 04-05 FSA Handbook.

*Disbursement rules:* When a student is enrolled in a credit-hour program offered in modules but the student will not attend the first module in a payment period, the school uses the starting date of the first module in the payment period that the school expects the student to attend to determine the Stafford or PLUS loan disbursement schedule. Effective with the publication of the 04-05 FSA Handbook.

There is one exception to the 120-day loan disbursement reissue policy. The exception permits a lender to reissue a loan disbursement more than 120 days after the last date of the student's eligible enrollment or more than 120 days after the date on which the original late disbursement was made, so that the student will not be harmed by circumstances beyond his or her control. The location in the Manual's text of this exception implies that it is only applicable to the reissue of a late disbursement, which is not the intent of the policy. To correct this, a new subheading was added to separate the exception to the 120-day reissue limitation from the policy regarding late disbursement, thereby clarifying that the exception applies both to timely disbursements and to late disbursements. In addition, a new requirement has been added that stipulates that the lender must document the reason for the reissue of the loan disbursement in all reissue situations. This policy is effective for disbursements reissued by the lender on or after July 1, 2004.

*Loan certification:* A school may certify a parent borrower's eligibility for a PLUS loan without performing need analysis and without determining the student's eligibility for either a Pell grant or a subsidized or unsubsidized Stafford loan.

*Payment period:* For an eligible program that measures progress in credit hours and has standard academic terms, or has nonstandard terms that are substantially equal in length, the payment period is the academic term (semester, trimester, quarter, or nonstandard term). In such a program that is offered in modules, the payment period is an academic term, including a case in which a student does not enroll in all of the modules within the term. Effective with the publication of the 04-05 FSA Handbook.

*Program of study:* In a credit-hour program that is offered in modules, a school has several options for defining the program's structure. A school may group modules together and treat the entire period of combined modules as a single term. A school may also treat a program that is offered in modules as a program that consists of nonstandard terms. In addition, a school may treat a program that consists of modules as a non-term-based program.

For a program that is offered in standard terms, a school may combine a short nonstandard term with an adjacent standard term and treat the combined term as a single, standard term composed of two modules.

*Repayment start:* A lender must establish a first payment due date on a Consolidation loan that is no more than 60 days after the last day of a deferment or forbearance period, unless the borrower makes prepayments during that period that cause the due date to be advanced. When a lender is required to redisclose repayment terms because of the addition of a loan(s) during the 180-day add-on period, the lender may establish a new effective date for the revised payment amount. The new effective date must be no more than 60 days after the date of the last disbursement that discharged the add-on loan(s). This policy is effective for Consolidation loan repayment disclosures issued by a lender on or after July 1, 2004.

### October 1, 2004

*Loan origination:* If a power of attorney is used to sign a Master Promissory Note (MPN), the MPN is only valid for one loan. This single loan restriction is effective October 1, 2004, unless implemented earlier by the guarantor.

*Special allowance:* A loan financed with proceeds of a tax-exempt obligation originally issued prior to October 1, 1993, will revert to the regular special allowance rates paid on other loans if such a tax-exempt obligation is refunded, retired, or defeased on or after September 30, 2004.

**October 30, 2004**

*Teacher loan forgiveness:* The Taxpayer-Teacher Protection Act of 2004, which includes new statutory loan forgiveness eligibility criteria and an increased forgiveness amount for certain borrowers, was enacted on October 30, 2004. Subsequently, the Department issued GEN-05-02/FP-05-02 to announce the increased loan forgiveness maximum of $17,500—the previous maximum was $5,000. The DCL also includes the new criteria for borrowers who begin their qualifying teaching service on or after October 30, 2004, to qualify for the $5,000 forgiveness maximum and provides definitions applicable to additional teacher qualifications required to obtain that increased forgiveness amount. These provisions are applicable to Stafford loans and Consolidation loans—to the extent that the Consolidation loan repaid a borrower's eligible underlying Stafford loan(s). The new statutory loan forgiveness criteria are as follows:

For a borrower who begins a period of qualifying teaching service prior to October 30, 2004, the borrower may be eligible for loan forgiveness of up to $5,000 if he or she is either:

- A full-time elementary school teacher who demonstrates knowledge and teaching skills in reading, writing, mathematics, or other areas of the elementary school curriculum.

- A full-time secondary school teacher teaching in a subject area that is relevant to his or her academic major.

For a borrower who begins a period of qualifying teaching service prior to October 30, 2004, the borrower may be eligible for up to $17,500 in loan forgiveness (less any forgiveness amount received under the previous criteria) if the borrower has completed the period of qualifying teaching service as a highly qualified full-time mathematics or science teacher in a qualifying secondary school or as a highly qualified special education teacher.

A borrower may also complete the 5-year teaching service requirement by combining years of full-time service at qualifying elementary and secondary schools in order to qualify for teacher loan forgiveness, provided that he or she is otherwise eligible.

For a borrower who began a period of qualifying teaching service on or after October 30, 2004, the borrower may be eligible for loan forgiveness of either:

- A maximum of $5,000 for teaching as a highly qualified full-time teacher in an eligible elementary or secondary school.

- A maximum of $17,500 for teaching as a highly qualified full-time mathematics or science teacher in an eligible secondary school or as a highly qualified special education teacher.

The term "highly qualified" is a critical eligibility criterion for teacher loan forgiveness at the increased amount of $17,500 and for loan forgiveness for periods of qualifying teaching service that begin on or after October 30, 2004. A *highly qualified* teacher is a teacher in a public or nonprofit elementary or secondary school who has obtained a full State certification as a teacher (including certification obtained through alternative routes to certification) or passed the State teacher licensing examination and holds a license to teach in that state, except that when used with respect to any teacher teaching in a public charter school, the term means that the teacher meets the requirements set forth in the State's public charter school law; and has not had certification or licensure requirements waived on an emergency, temporary, or provisional basis. In addition, the teacher must be one of the following:

- An elementary school teacher who is new to the teaching profession; holds a bachelor's degree; and has demonstrated, by passing a rigorous State test, subject knowledge and teaching skills in reading, writing, mathematics, and other areas of basic elementary school curriculum (which may consist of passing a State-required certification or licensing test or tests in reading, writing, mathematics, and other areas of the basic elementary school curriculum).

- A middle or secondary school teacher who is new to the profession; holds a bachelor's degree; and has demonstrated a high level of competency in each of the academic subjects in which the teacher teaches by passing a rigorous state academic subject test in each of the academic subjects in which the teacher teaches (which may consist of a passing level of performance on a state-required certification or licensing test or tests in each of the academic subjects in which the teacher teaches), or by successfully completing, in each of the academic subjects in which the teacher teaches, of an academic major, a graduate degree, coursework equivalent to an undergraduate academic major, or advanced certification or credentialing.

- An elementary, middle, or secondary school teacher who is not new to the profession, holds at least a bachelor's degree, and meets the applicable standards of an elementary, middle, or secondary school teacher who is new to the profession; or demonstrates competence in all the academic subjects in which the teacher teaches based on a high objective uniform state standard of evaluation that meets all of the following criteria:

  - Is set by the state for both grade appropriate academic subject matter knowledge and teaching skills.

  - Is aligned with challenging state academic content and student academic achievement standards and developed in consultation with core content specialists, teachers, principals, and school administrators.

  - Provides objective, coherent information about the teacher's attainment of core content knowledge in the academic subjects in which a teacher teaches.

  - Is applied uniformly to all teachers in the same academic subject and the same grade level throughout the state.

  - Takes into consideration, but is not based primarily on, the time the teacher has been teaching in the academic subject.

  - Is made available to the public upon request.

  - May involve multiple, objective measures of teacher competency.

A lender is required to grant a teacher loan forgiveness forbearance if the lender believes that the anticipated forgiveness amount will satisfy the outstanding loan balance at the time the borrower will complete the qualifying period of teaching service.

#### November 2004

*Withdrawal:* The Department of Education issues DCL GEN-04-12 to announce a revised time frame for certain schools to determine a student's withdrawal date. For a school that is required to record attendance, the date of determination that the student withdrew must be no later than 14 days after the student's last date of academic attendance as determined from the school's attendance records. Previous guidance required schools to make this determination no later than 7 days after the student's last date of academic attendance. The change is effective for withdrawal determinations made by the school on or after November 17, 2004.

## 2005

*Academic Year:* To determine the academic year and the frequency of Stafford annual loan limits, a school may use either a scheduled academic year or a borrower-based academic year for its standard term-based credit-hour programs. A school must use a borrower-based academic year for its nonstandard term-based and non-term-based credit-hour programs, as well as for its clock-hour programs. These provisions are effective on the publication date of the 05-06 FSA Handbook, unless implemented earlier by the school.

*Annual loan limits:* Stafford loan eligibility for a transfer student is the annual loan limit applicable to the student's current grade level minus the loan amount that the student has already received for the final academic year of the prior program. For a student who transfers to a standard term-based credit-hour program, the student's Stafford loan eligibility for a subsequent term that begins within the initial academic year of the new program, but after the end of the final academic year of the prior program, is the annual loan limit applicable to the student's current grade level minus the outstanding loan amount the student has already received for that academic year in the new program. These provisions are effective on the publication date of the 05-06 FSA Handbook, unless implemented earlier by the school.

#### May 1, 2005

*Annual loan limits:* For loan periods beginning on or after May 1, 2005, schools offering Naturopathic Medicine programs that lead to a Doctor of Naturopathic Medicine Degree or a Doctor of Naturopathy Degree and are accredited by the Council on Naturopathic Medical Education are eligible to award increased unsubsidized Stafford loan limits to students enrolled in those programs.

#### June 1, 2005

*Cohort default rate:* The Department sends a domestic school its draft and official electronic cohort default rates (eCDR) through the Student Aid Internet Gateway (SAIG). All domestic schools are required to enroll in the SAIG and designate a SAIG destination point for the receipt of the eCDR notifications. The Department mails draft and official cohort default rate notifications to foreign schools.

**July 1, 2005**

*Aggregate loan limit:* If a borrower inadvertently exceeds an aggregate loan limit under a Title IV loan program, the borrower may make arrangements satisfactory to the holder of the loan to repay the excess loan amount and these arrangements may include having the borrower sign an agreement acknowledging the debt and affirming his or intention to repay the excess amount as part of the normal repayment process. Consolidation of the loan(s) that exceeded the aggregate loan limit (provided that the loan(s) is otherwise eligible for consolidation) is also considered to be a satisfactory repayment arrangement.

*Annual loan limit:* If a borrower inadvertently exceeds an annual loan limit under a Title IV program, the borrower may make arrangements satisfactory to the holder of the loan to repay the excess loan amount and these arrangements may include having the borrower sign an agreement acknowledging the debt and affirming his or intention to repay the excess amount as part of the normal repayment process. Consolidation of the loan(s) that exceeded the annual loan limit (provided that the loan(s) is otherwise eligible for consolidation) is also considered to be a satisfactory repayment arrangement.

*Closed school loan discharge:* If the lender receives notification that a closed school discharge may be applicable to the underlying loans of a Consolidation loan, the lender is required to suspend collection activity on the Consolidation loan consistent with the requirements for suspending collection activity on other loans.

If a loan is 270 or more days delinquent and the lender has not filed a claim on the loan, the lender or guarantor must identify the borrower's potential eligibility for loan discharge and send the borrower the loan discharge application and other applicable notifications as required for all closed school loan discharge applications. The lender must process an administrative forbearance on the loan. If the lender did not receive the discharge notification from the guarantor, the lender must notify the guarantor of each borrower it identifies as potentially eligible for loan discharge due to the student's school's closing. If the borrower does not return the loan discharge application for the defaulted loan within 60 days, or the guarantor or the Department has not instructed the lender to file a closed school discharge claim, the lender must discontinue the administrative forbearance and file the default claim.

If the lender has filed a default claim with the guarantor and that claim has not yet been paid, the lender or guarantor must identify the borrower's potential eligibility for loan discharge and send the borrower the discharge application and applicable notifications as required for other, non-defaulted FFELP loans. If the guarantor returns the claim to the lender, the lender must process an administrative forbearance on the loan. In addition, if the lender did not receive the discharge notification from the guarantor, the lender must notify the guarantor of each defaulted, claim-filed borrower it identifies as potentially eligible for loan discharge due to the student's school's closing. The lender must send the notice to the guarantor on the same day the lender sends the loan discharge application materials to the borrower.

If the borrower returns a completed discharge application within 60 days and the guarantor returned the default claim to the lender, the lender must refile the claim as a closed school loan discharge claim within 60 days of the date on which it receives either the completed discharge application or notice from the guarantor to file a closed school loan discharge claim. If the borrower does not return the completed discharge application and the guarantor returned the claim to the lender, the lender must refile the default claim within 60 days of the end of the 60-day administrative forbearance period.

The lender must file or refile a default claim if the borrower fails to return the loan discharge application timely. Refile time frames are measured from the earlier of the day the lender receives notice from the guarantor to file the default claim or, if no response is received from the borrower, within 60 days of the end of the administrative forbearance period. The lender must refile the returned default claim:

- Within 30 days to ensure that the claim will be paid including all outstanding interest.

- On or after day 31, but no later than day 60, to ensure that the claim will be paid, but interest will be limited to 270 days.

If the guarantor did not return the claim, and the borrower returns a completed discharge application within 60 days, the lender must notify the guarantor and must forward all pertinent closed school documentation to the guarantor. If the guarantor did not return the claim to the lender and the borrower fails to return the completed discharge application within 60 days, the lender must notify the guarantor that the closed school loan discharge is no longer pending.

*Estimated financial assistance:* For a student who is enrolled simultaneously in multiple schools, a Stafford or PLUS loan certified by one school is not included as estimated financial assistance by any other school when determining the student or parent borrower's loan eligibility

for the same payment period or period of enrollment. Both schools must ensure that the student does not receive loan funds that exceed the applicable annual loan limit. Effective with the publication of the 05-06 FSA Handbook.

*False certification loan discharge:* If a false certification loan discharge may be applicable to the underlying loans of a Consolidation loan, the lender is required to suspend collection activity on the Consolidation loan.

If the loan is 270 or more days delinquent, and the lender has not filed a claim on a loan, the lender or guarantor must identify the borrower's potential eligibility for loan discharge, process an administrative forbearance, and send the borrower the loan discharge application and other applicable notifications as required for all false certification loan discharge applications. If the lender did not receive the discharge notification from the guarantor, the lender must notify the guarantor of each borrower it identifies as potentially eligible for loan discharge due to the false certification of his or her loan.

If the loan discharge application is not returned within 60 days, or the guarantor or the Department has not instructed the lender to file a false certification loan discharge claim, the lender must discontinue the administrative forbearance and file the default claim.

If the lender has filed a default claim with the guarantor and that claim has not yet been paid, the lender or guarantor must identify the borrower's potential eligibility for loan discharge and send the loan discharge application and applicable notifications to the borrower as required for other, non-defaulted loans.

If the guarantor returns the claim, the lender must process an administrative forbearance. In addition, if the lender did not receive the discharge notification from the guarantor, the lender must notify the guarantor of each defaulted, claim-filed borrower it identifies as potentially eligible for loan discharge due to the false certification of his or her loan. The lender must send the notice to the guarantor on the same day the lender sends the loan discharge application materials to the borrower.

The lender must file or refile a default claim if the borrower fails to return the discharge application timely. Refile time frames are measured from the earlier of the date the lender receives notice from the guarantor to refile the default claim or the end of the 60-day administrative forbearance period. The lender must refile the default claim:

- Within 30 days to ensure that the claim will be paid including all outstanding interest.
- On or after day 31, but no later than day 60, to ensure that the claim will be paid, but interest will be limited to 270 days.

If the guarantor does not return the claim, and the borrower returns a completed discharge application within 60 days, the lender must notify the guarantor to reactivate the claim as a false certification loan discharge claim and must forward all pertinent false certification documentation to the guarantor. If guarantor does not return the claim and the borrower fails to return the completed discharge application within 60 days, the lender must notify the guarantor that the 60-day response time frame has expired and that the lender has not received the discharge application.

*Loan amount:* A school must calculate prorated, i.e., reduced, Stafford annual loan limits when the school knows in advance that an undergraduate Stafford loan borrower will be enrolled in a program of study that is shorter than the statutory minimum for an academic year or, for a program that is longer than the statutory academic year minimum, the borrower is completing a final period of study that is shorter than an academic year. The school is not required to prorate a loan for an undergraduate borrower who is enrolled less than half time for a term(s) during a final period of study that contains the number of terms in the program's academic year. Effective with the publication date of Volume 3 of the 05-06 FSA Handbook for the each of the following:

- Clarifying that a school must prorate the Stafford annual loan limit when the school knows in advance that an undergraduate borrower will enroll in a program that is shorter than an academic year or, for a program that is equal to or longer than an academic year, the borrower will enroll in a final period of study that is shorter than an academic year.
- Exempting from proration an undergraduate borrower who is enrolled at least half time but less than full time or enrolled for a period of less than a full academic year that is not a final period of study.

*Forbearance:* A lender must grant a mandatory administrative forbearance on a Federal Consolidation loan that paid in full one or more underlying PLUS loans in the event of the death of the student for whom the PLUS loan was made.

**September 21, 2005**

*Academic year:* A school may use a scheduled academic year (SAY) or a borrower-based academic year (BBAY) to determine the Stafford annual loan limit frequency and to determine the parent PLUS loan period for a student who is enrolled in a standard term-based program that is offered in a traditional academic year calendar, including such a program that is comprised of modules. Revised policy also broadens the definition of BBAY to acknowledge its use in all types of programs and provides new detail concerning the use of a BBAY in standard term-based programs that do, and do not, have a traditional academic calendar. This change is effective with the publication date of the 05-06 FSA Handbook.

*Annual loan limit:* When a student transfers from a graduate program to an undergraduate program within an academic year, the undergraduate Stafford annual loan limit for the student's grade level applies, but amounts previously borrowed at the graduate level within the same academic year do not count against the undergraduate Stafford annual loan limit. The total amount awarded for the academic year may not exceed the higher (graduate/professional) annual loan limit.

*Loan certification:* A school may not have a general policy of prorating the annual loan limit based on a student's enrollment status.

**October 1, 2005**

*Teacher loan forgiveness:* The Taxpayer-Teacher Protection Act of 2004 originally included a termination date for benefits for the increased teacher loan forgiveness amount of up to $17,500 for teachers in certain specialties. The Higher Education Reconciliation Act of 2005 amended the Taxpayer-Teacher Protection Act of 2004 by removing the termination date, thus reinstating the previous increased teacher loan forgiveness amounts of up to $17,500 for teachers in certain specialties and reinstating the additional eligibility criteria that were imposed by the previous legislation.

**October 20, 2005**

The Department announces in the *Federal Register* (Vol. 70, No. 202, issued October 20, 2005) that the Higher Education Relief Opportunities for Students (HEROES) Act waivers have been extended from September 30, 2005, to September 30, 2007. The Department originally issued these waivers on December 12, 2003, effective until September 30, 2005. See Section H.4 for detailed information about the areas of Title IV administration that these waivers affect.

**October 27, 2005**

*Delivering loan funds:* A school may deliver loan proceeds by issuing a stored-value card to the student if the school obtains authorization from the student or parent borrower, as applicable, and the following conditions are met:

- The value of the card must be convertible to cash and may not be limited to specific vendors.
- The student must not incur any fees for using the card to withdraw the disbursement over a reasonable period of time. It would be reasonable to allow automated teller machine (ATM) withdrawals to be free, or to provide several free withdrawals per month. It would also be reasonable to charge a fee for use of an ATM that is not affiliated with the issuing bank, as long as ATMs from the issuing bank are conveniently located for the student.
- The student must not be charged by either the school or the affiliated bank for the issuing of a stored-value card. The student may be charged for a replacement card.
- The bank must have an individual account for each student that is insured by the Federal Deposit Insurance Corporation (FDIC).
- The school must not make any claims against the funds on the card without the written permission of the student, except to correct an error in transferring the funds to the bank under existing banking rules.
- The account must not be marketed or portrayed as a credit card account, nor be structured to be converted into a credit card at any time after it is issued. The issuing bank may not link the stored-value card account to any other banking services it may offer, such as checking, savings, or credit card accounts.
- The school must inform the student of any terms and conditions associated with accepting and using the stored-value card.
- The school must ensure that its stored-value card process meets all regulatory time frames for delivery of loan proceeds or payment of Title IV credit balances.

- The student's access to the funds on the stored-value card must not be contingent upon the student's continued enrollment, academic status, or financial standing with the school.

*Late delivery:* A borrower is not required to sign the Master Promissory Note (MPN) prior to the end of the loan period or the date on which the student ceased to be enrolled at least half time (or lost eligibility for a reason other than a withdrawal) to be eligible for a late delivery of Stafford or PLUS loan funds, as applicable. This change is effective for return of Title IV funds calculations completed on or after October 27, 2005.

*Post-withdrawal disbursement:* The borrower must sign the MPN before a lender may make a late disbursement. This change is effective for return of Title IV funds calculations completed on or after October 27, 2005.

*Return of Title IV funds:* A school may include Stafford or PLUS loan funds, as applicable, as aid that could have been disbursed in the return of Title IV funds calculation if the borrower signed the Master Promissory Note (MPN) prior to the date the school completes the calculation.

## 2006

### January 1, 2006

*Claim filing requirements:* A lender must include a copy of the applicable power of attorney (POA) document with the claim file it submits to the guarantor if the MPN was signed by a third party with POA for the borrower. If the lender is aware that the promissory notes of any of the underlying loans for a Consolidation loan are signed using a POA, and the lender is filing a closed school or false certification claim, the lender must include a copy of the applicable POA document in the claim file.

A lender must include separately on the Claim Form, the amount of unpaid origination fees and unpaid capitalized interest that is included in the total unpaid principal balance on the date that the claim is filed.

*Eligibility – borrower and student:* The unallocated amount of a Consolidation loan is no longer included in the NSLDS calculation for aggregate outstanding principal balances on the NSLDS. The FAA is no longer required to investigate whether an unallocated amount of a Consolidation loan might impact a student's eligibility for additional Stafford loans. However, if the FAA has conflicting information indicating that the unallocated amount would cause the student to exceed the Stafford aggregate loan limit, the FAA must resolve the conflict and must use the information derived from that resolution to determine the student's remaining Stafford loan eligibility.

*Social Security number documentation/reporting:* Income tax returns, and official military orders, documents, or papers are removed from the list of acceptable documents for making an SSN change. An unexpired U.S. military ID is added as an acceptable document for making an SSN change.

### February 8, 2006

President Bush signs into law the Deficit Reduction Act of 2005 (P. L. 109-171) on February 8, 2006. The portion of the act that amends the HEA is referred to as the Higher Education Reconciliation Act of 2005 (HERA).

*Disbursement rules:* The delayed delivery requirement and the single-term multiple disbursement requirement are waived for a school that has an official cohort default rate of less than 10% for each of the three most recent fiscal years for which data are available. The school may begin to certify loans based on the exemptions when the school receives notice of the third year's qualifying rate or notice from the Department of a successful adjustment or appeal that brings the school's official rate to less than 10%. The school must cease certifying loans based on the multiple disbursement or delayed delivery exemptions no later than 30 days after the date it receives notification from the Department of an *official* cohort default rate that causes the school to no longer meet the qualifications for the exemption. Effective February 8, 2006.

*Special allowance:* A loan financed with proceeds of a tax-exempt obligation originally issued prior to October 1, 1993, reverts to the regular special allowance rates paid on other loans if certain actions occur after September 30, 2004. A loan made or purchased on or after February 8, 2006, or a loan that is not subject to the maximum/minimum provisions for special allowance payments as of February 8, 2006, is no longer subject to the maximum/minimum provisions for special allowance payments. However, certain holders of these loans are still subject to the maximum/minimum provisions for special allowance payments until December 31, 2010, if both of the following criteria apply:

- The holder was a unit of the state or local government, or a nonprofit private entity as of February 8, 2006, and remains such an entity during the quarter for which the special allowance is paid.

- The holder held, directly or through any subsidiary, affiliate, or trustee, a total unpaid balance of principal equal to or less than $100 million on loans for which the maximum/minimum special allowance payments were paid in the most recent quarterly payment prior to September 30, 2005.

**March 10, 2006**

The Department issues DCL GEN-06-02/FP-06-01 to provide guidance regarding the provisions of the Higher Education Reconciliation Act of 2005 (HERA) (P.L.109-171).

**March 14, 2006**

The Department issues DCL GEN-06-03/FP-06-02 to correct the Stafford loan limit charts published in DCL GEN-06-02/FP-06-01.

**March 17, 2006**

The Department issues DCL FP-06-03 to reiterate its intent to enforce the single-holder rule for Consolidation loans.

**March 2006 (undated)**

The Department issues DCL GEN-06-04/FP-06-04 to provide guidance regarding the Lender's Interest and Special Allowance Request and Report (LaRs) reporting changes that resulted from the Higher Education Reconciliation Act of 2005 (HERA).

**April 1, 2006**

*Eligibility – lender:* Criteria for a school to participate as a lender have changed. The school must meet eligibility criteria as of February 7, 2006, and make a FFELP loan(s) on or before April 1, 2006.

*Excess interest rebate:* For a loan first disbursed on or after April 1, 2006, the Department will collect excess interest for quarters in which the applicable interest rate on the loan exceeds the special allowance support level. The excess interest rate is the applicable interest rate on any FFELP loan first disbursed on or after April 1, 2006, minus the appropriate special allowance support level. The support level is defined as the average of the bond equivalent rates of quotes of the 3-month commercial paper rates in effect for each of the days in the quarter as reported by the Federal Reserve in Publication H-15 for the 3-month period plus one of the following:

- 2.34% for a Stafford loan in repayment.
- 1.74% for a Stafford loan during the in-school, grace, or deferment period.
- 2.64% for a Consolidation or PLUS loan.

*Special allowance:* For special allowance payments made on or after April 1, 2006, a PLUS loan first disbursed on or after January 1, 2000, for any period prior to April 1, 2006, is eligible for special allowance only if the loan is accruing at the cap and the interest rate calculated prior to applying the cap exceeds the maximum interest rate for the loan.

**April 24, 2006**

*Common forms:* The Department issues DCL FP-06-05 to publish updated Plain Language Disclosures and addenda for both Stafford and PLUS loans, and an addendum for Consolidation loans. The revised forms explain changes in loan terms derived from the Higher Education Reconciliation Act of 2005 (HERA), including the newly authorized PLUS loans for graduate and professional students. Lenders are required to provide the updated forms to loan applicants as soon as possible, but the letter also provides various implementation scenarios for returning borrowers.

**May 8, 2006**

*Common forms:* The Department issues DCL FP-06-06 to announce the approval of revised deferment forms for the FFELP. Beginning September 25, 2006, lenders are required to provide the updated forms to borrowers requesting deferment.

**May 11, 2006**

*Eligibility – borrower and student:* A victim of human trafficking and certain relatives of such a victim are eligible noncitizens for purposes of determining eligibility for Title IV assistance.

**May 23, 2006**

*Common forms:* The Department issues DCL FP-06-08 to announce the approval of revised Stafford and PLUS Master Promissory Notes (MPNs). Lenders are permitted to use existing paper forms until the supply is exhausted, but are encouraged to use the reapproved forms with the new expiration date as soon as possible.

**May 30, 2006**

The Department issues DCL FP-06-09 to assist lenders in determining the correct weighted average interest rate for Consolidation loans as of July 1, 2006.

**June 5, 2006**

The Department issues DCL FP-06-10 to provide guidance to lenders regarding special allowance billing on PLUS loans.

**June 15, 2006**

President Bush signs into law the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror and Hurricane Recovery (P. L. 109-234) on June 15, 2006. A portion of the act amends the HEA.

*Consolidation loans:* The single-holder rule is repealed. A borrower may request consolidation from any participating consolidation lender, regardless of whether the consolidating lender is a holder of any of the borrower's loans.

**June 22, 2006**

*Eligibility – borrower and student:* A school may rely on, in addition to paper documentation, information accessed directly from a loan holder's database, or a third-party's Web-based product that displays a loan holder's real-time data, as documentation that satisfactory repayment arrangements have been made on a defaulted loan; a loan is no longer in default; or eligibility problems created by excessive borrowing have been resolved.

**June 23, 2006**

The Department issues DCL GEN-06-12/FP-06-11 to explain provisions of the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery (Appropriations Act) (P.L. 109-234). The letter includes guidance on the revocation of the single-holder rule for Consolidation loans and the consolidation of defaulted loans into the Federal Direct Loan Program.

**July 1, 2006**

*Academic year:* For an undergraduate program of study measured in clock hours, the minimum academic year requirement is reduced from 30 instructional weeks to 26 instructional weeks. This change is effective for loan periods beginning on or after July 1, 2006.

*Additional unsubsidized Stafford funding:* If a parent is approved for a PLUS loan, the student is not eligible for the additional unsubsidized Stafford loan funds available to an independent student. Effective with the publication date of Volume 3 of the 06-07 FSA Handbook, unless implemented earlier by the guarantor.

*Audit:* A school lender must submit an annual compliance audit on its FFELP lending activities, regardless of the size of the school's loan portfolio or annual loan volume.

*Claim filing requirements:* Requires the lender to notify the guarantor if, after filing a default claim, it receives documentation that the loan(s) qualifies for a different type of claim payment. Effective for false certification loan discharge as a result of the crime of identity theft received by the lender on or after July 1, 2006.

*Claim payment:* An ineligible borrower claim filed by the lender on a loan first disbursed on or after July 1, 2006, is eligible for payment of 100% of outstanding eligible principal and interest.

*Common forms:* The National Council of Higher Education Loan Programs (NCHELP) Program Operations Committee's Default Aversion and Claims Standardization (DACS) Workgroup revises the Common Claim Form and the chart of data elements has been updated to coordinate with those changes. A lender is now required to enter the total amount of payments made by or on behalf of a borrower after the date the borrower became unable to work and earn money. Various fields that were required only if available are now required. Footnote 3, which states that the information is required only for loans first disbursed on or after September 1, 1998, is removed for the servicer's six-digit servicer ID assigned by the Department. Item descriptions are added or amended to clarify that a validity indicator field must be populated while the address or telephone number fields are required only if available or it the loan(s) were disbursed on or after September 1, 1998.

DACS also revises the common Default Aversion Assistance Request form and the chart of data elements has been updated to coordinate with those changes. The validity of the borrower's address and the validity of the address for each reference were only required if available. The cross-reference to footnote 3 for the servicer's six-digit servicer ID assigned by the Department which states that the information is only required for loans disbursed on or after September 1, 1998, is removed. Validity fields for addresses and phone numbers must now be completed and the endorser's or comaker's home telephone number must be completed only if it is available for all loans, regardless of the disbursement date.

*Consolidation loans:* A married couple is no longer permitted to consolidate their eligible loans jointly.

*Cost of attendance:* For a student enrolled in a program that requires professional licensure or certification, the school has the option of including the one-time cost of obtaining the first professional credential, as determined by the school. The license or certification must be required by a state or must be commonly accepted as required to practice or be employed in the profession. In addition, the cost must be incurred while the student is enrolled in school and must not include costs associated with preparing the student for a test required for licensure or certification unless the preparation is part of the eligible program.

The COA does not include the costs satisfied by state financial assistance if the state specifies that the funds must be used to pay a specific component of the student's COA, and the state funds were excluded from the student's estimated financial assistance.

*Deferment:* A new military deferment is created. This deferment is for a borrower's loan(s) that are first disbursed on or after July 1, 2001, and is applicable while a borrower is serving on active duty during a war or other military operation, or a national emergency, or while a borrower is performing qualifying National Guard duty during a war or other military operation, or a national emergency.

The military deferment is loan-specific. This deferment is available only for a borrower's Stafford and PLUS loans first disbursed on or after July 1, 2001, and Consolidation loans when all Title IV loans included in the Consolidation loan are loans that were first disbursed on or after July 1, 2001. The borrower must meet the qualifications after July 1, 2001.

The deferment is available only for periods during which a borrower is performing one of the following services:

- Serving on active duty during a war or other military operation, or a national emergency.
- Performing qualifying National Guard duty during a war or other military operation, or a national emergency.

The new regulations provide definitions specific to the context of the military deferment.

A borrower is not eligible for a refund of any loan payments made prior to the time the deferment is granted.

*Disability discharge (total and permanent):* A lender must review the records of a borrower who applies to the lender for total and permanent disability loan discharge for any new loans made to the borrower on or after the date the borrower became totally and permanently disabled. If the lender's records indicate (or the lender is otherwise aware) that a new loan was made during the 3-year conditional discharge period, the lender must deny the discharge and inform the borrower.

*Disbursements rules:* A lender that disburses loan proceeds through an escrow agent must make funds available to the escrow agent no earlier than 10 days prior to the date of the scheduled disbursement to the school or borrower and must require the escrow agent to disburse loan proceeds no later than 10 days after receiving the proceeds from the lender.

A lender, at the request of a student enrolled in a study-abroad program that is approved for credit by the home institution, must disburse loan funds directly to the student or pursuant to an authorized power of attorney, only after the lender or guarantor verifies the student's enrollment. The lender may make a loan disbursement directly to a student enrolled in a foreign school at the school's request after lender or guarantor verifies the student's enrollment. A student enrolled in a foreign school may not execute a power of attorney for the purpose of endorsing his or her FFELP loan disbursement.

Foreign schools are no longer automatically exempt from the delayed delivery and multiple disbursement requirements but may be exempted based on low cohort default rates. The delayed delivery requirement and the single-term multiple disbursement requirement are waived for schools that have a cohort default rate of less than 10 percent for each of the three most recent fiscal years for which data are available.

A guarantor must verify that a school is certified to participate in the Title IV programs prior to the lender's direct disbursement of loan funds to a student enrolled in a foreign school.

*Disclosure requirements:* A lender no longer needs to disclose to the borrower how the interest rate is calculated. This information is no longer necessary as FFELP loan interest rates are currently fixed.

*Eligibility – borrower and student:* A student who is convicted of the possession or sale of an illegal drug is ineligible for Title IV funds only if the student was convicted of a state or federal offense that occurred while the student was enrolled in school and receiving Title IV aid.

A student or parent borrower who has been convicted of, or has pleaded guilty or *nolo contendere* to, a crime involving fraud in obtaining Title IV financial assistance is ineligible for additional Title IV funds until the student or parent borrower, as applicable, repays in full the funds that were obtained fraudulently. The student or parent borrower's eligibility under this provision is based on the borrower's certification provided in the Master Promissory Note (MPN). Regardless of any information the student or parent borrower may certify, if the school or lender is aware of information indicating that the student or parent obtained Title IV funds fraudulently, the discrepancy must be resolved before additional Title IV funds may be disbursed or delivered.

For purposes of Title IV aid, a student is considered independent if the student is currently serving on active duty in the U.S. Armed Forces or is a National Guard or Reserves enlistee and is called to active duty for purposes other than training. In this case, active duty does not include a call into active duty for state purposes.

*Eligibility – lender:* A school must have been eligible to be a school lender as of February 7, 2006, and must have made a loan(s) on or before April 1, 2006, to participate as a lender. The following rules apply to schools acting as lenders in the FFELP on or after July 1, 2006:

- The school must not be a home-study school.
- The school may make subsidized and unsubsidized Stafford loans only to its graduate and professional students.
- The school may not make PLUS loans or Consolidation loans.
- The school must offer an origination fee or interest rate, or both, that is less than the statutory maximums for that fee or rate.
- The school must use the proceeds from its interest benefits and special allowance payments from the Department and from interest payments from its borrowers, as well as the proceeds from the sale or other disposition of its loans, for need-based grant programs, except for reimbursement of reasonable, direct administrative expenses. The school must ensure that the proceeds from the FFELP loan portfolio are used to supplement the non-federal grant funding sources rather than substitute for funds from those other sources.
- The school must not have a cohort default rate that exceeds 10%.
- The school must award any contract for financing, servicing, or administration of its FFELP loans on a competitive basis.
- The school must submit to the Department an annual lender compliance audit for any year in which the school engages in activities as an eligible lender. This requirement applies regardless of the size of the school's loan portfolio or annual loan volume.

The requirement that the school separate its lending function from other school functions and that the school employ at least one person whose responsibilities are limited to the lending function is revised. The requirement is revised to require that the school employ one person whose responsibilities are limited to the administration of financial aid programs for students attending that school.

A school lender may make loans only to students enrolled at that school. The net proceeds that a school lender must use for need-based grants exclude the amount necessary for reimbursement of reasonable and direct administrative expenses, and that definition of administrative expenses does not include the costs associated with securing financing, offering a reduced origination fee, interest rate, or federal default fee to borrowers. The annual lender compliance audit of the school's FFELP portfolio is required for each fiscal year beginning on or after July 1, 2006, regardless of the size of the school's loan portfolio or annual loan volume.

*Estimated financial assistance:* Qualified education benefits, including qualified tuition programs (e.g., 529 prepaid tuition plans and savings plans), prepaid tuition plans offered by a state, and Coverdell education savings accounts are no longer included in a student's EFA.

*False certification loan discharge:* A new loan discharge for false certification—due to a crime of identify theft—is available for borrowers. Until the date that the Department's applicable discharge regulations are effective, a lender may provide administrative forbearance on a borrower's potentially eligible loan(s) if a borrower presents evidence, on or after July 1, 2006, that the lender believes to be reasonably persuasive, showing that the borrower's loan(s) may have been falsely certified due to a crime of identity theft.

*Federal default fee:* The HERA mandates a federal default fee and eliminates statutory provisions that authorize guarantors to charge a guarantee fee. If a lender deducted the federal default fee (or guarantee fee), and/or origination fee from the borrower's loan proceeds, the lender must reduce the fee(s) proportionate to the amount of returned loan funds that a lender receives from a school. A guarantor may not charge a federal default fee (formerly guarantee fee) to a borrower who refinances a fixed-rate PLUS or SLS loan to secure a variable interest rate, nor may the lender deduct the fee from the borrower's loan proceeds.

*Forbearance:* When a portion of a Consolidation loan may be eligible for unpaid refund loan discharge or teacher loan forgiveness a lender must suspend collection activity and grant an administrative forbearance on the entire Consolidation loan while awaiting documentation and during a guarantor's review of a portion of the loan's eligibility for unpaid refund loan discharge or teacher loan forgiveness.

A lender may provide administrative forbearance on a borrower's potentially eligible loan(s) if a borrower presents evidence, on or after July 1, 2006, that the lender believes to be reasonably persuasive, showing that the borrower's loan(s) may have been falsely certified due to a crime of identity theft.

In all cases when a forbearance agreement is required, a lender and the borrower may agree to the terms of forbearance verbally or in writing. A lender that grants a forbearance based on a verbal agreement with the borrower must record the forbearance terms in the borrower's file and send a notice to the borrower confirming the terms of the forbearance agreement.

*Interest rates:* A Stafford loan first disbursed on or after July 1, 2006, has a fixed interest rate of 6.8%. A PLUS loan first disbursed on or after July 1, 2006, has a fixed interest rate of 8.5%.

*Interest subsidy:* If a loan is disbursed through an escrow agent, the lender may bill for interest subsidy no earlier than three days before the date of the first disbursement of the loan. For these purposes disbursement means disbursement to the school or direct disbursement to the borrower.

*Program of study:* A school may use direct assessment instead of credit hours or clock hours as a measure of student learning. The assessment must be consistent with the school's or program's accreditation. The Department must determine whether such a program is an eligible program for Title IV purposes.

The definition of "eligible programs" is expanded as it relates to the use of telecommunications in programs of study. Courses offered by telecommunications are no longer considered to be correspondence courses, and students enrolled in telecommunications courses are no longer considered to be correspondence students. As a result, an otherwise eligible school that offers over 50% of its courses by telecommunications, or has 50% or more of its regular students enrolled in telecommunications courses, is now eligible to participate in the Title IV programs. A student enrolled in a short-term certificate program of less than one year offered by telecommunications is now eligible for Title IV program assistance. A program of study offered at a foreign school that includes a telecommunications course is ineligible for Title IV program assistance. Telecommunications technologies may be used in the foreign school classroom to supplement and support instruction offered as part of an otherwise eligible program. The 50% limitations continue to apply to correspondence courses and the students enrolled in those courses.

*Loan types:* PLUS loans are now available to an eligible graduate or professional student enrolled in an eligible graduate or professional program at a participating school. A school that participates in the Federal PLUS Loan Program and offers both undergraduate and graduate or professional programs must offer PLUS loans both to parents who wish to borrow on behalf of their dependent undergraduate students and to the school's graduate and professional students. The school is not permitted to exclude either category of borrower from participation in the Federal PLUS Loan Program.

Before applying for a PLUS loan, the graduate or professional student is required to complete a Free Application for Federal Student Aid (FAFSA) and the school is required to determine the student's maximum eligibility for subsidized and unsubsidized Stafford loan funds. However, the student may decline the Stafford loan funds and the school may not require the student to accept Stafford loan funds as a condition of applying for a Grad PLUS loan.

The PLUS MPN may be used by a graduate or professional student borrower to obtain one or more Grad PLUS loans. A school may certify a Grad PLUS loan for a graduate or professional student only if the student meets the eligibility criteria for both a student and a Grad PLUS loan borrower.

A school determines a graduate or professional student borrower's maximum eligibility for a Grad PLUS loan by subtracting from the cost of attendance (COA) the estimated financial assistance (EFA) that the student is expected to receive for the loan period.

*Origination fee:* The maximum origination fee that may be charged to a Stafford loan borrower is reduced, and will be eventually eliminated. Beginning July 1, 2006, for a Stafford loan first disbursed on or after July 1, 2006, the maximum origination fee that a lender may charge is 2%.

*Post-withdrawal disbursement:* Prior to delivering a post-withdrawal disbursement of loan funds to the borrower, the school must explain that the borrower is obligated to repay any loan funds that the school delivers and confirm that the borrower still requires the loan funds. The school is also required to document the student's file regarding the result of the contact and the final determination concerning the post-withdrawal disbursement. Effective for withdrawals that occur on or after July 1, 2006.

*Rehabilitation of defaulted loans:* A borrower is eligible to rehabilitate a defaulted loan after making nine full monthly payments that are received by the guarantor or its contracted vendor within 20 days of the due date during a period of 10 consecutive months. Guarantors have the option of considering borrowers to have met the new rehabilitation standard if at least one of the borrower's payments under the rehabilitation agreement is made on or after July 1, 2006.

*Repayment start:* A Stafford loan borrower is no longer allowed to waive all or a portion of his or her grace period in order to enter repayment early.

*Return of Title IV funds:* If there are unearned grant funds that must be repaid as a result of the return of Title IV funds calculation, the student is not required to return a grant overpayment for which the original balance was $50 or less, on a program-by-program basis. Furthermore, a student who owes a grant overpayment for which the original balance was $50 or less as a result of a return of Title IV funds calculation remains eligible to receive Title IV program assistance. The Academic Competitiveness Grant, SMART Grant, and Grad PLUS programs are now included in the order in which unearned funds must be returned to Title IV programs.

The number of days that a school has to return Title IV funds for which it is responsible increases from 30 days to 45 days after the date it determines the student has withdrawn.

The funds excluded from the return of Title IV funds calculation have been revised to exclude the following:

- Leveraging Educational Assistance Partnership (LEAP).
- Special Leveraging Educational Assistance Partnership (SLEAP).
- Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP).
- Student Support Services (SSS).

The method for computing the percentage of the payment period or period of enrollment completed for a student who withdraws from a clock-hour program has been simplified. This calculation is based on the hours the student was scheduled to complete as of the withdrawal date.

*Status changes and reporting:* A lender must retain a copy of the document substantiating the date of birth, or first name change or correction. Acceptable source documents for reporting or correcting those changes are as follows:

Acceptable Source Documents for Reporting the Correction of a Date of Birth
- Birth certificate
- Current driver's license (if it contains a birth date)
- State ID (if it contains a birth date)
- Passport
- Unexpired U.S. military ID

Acceptable Source Documents for Reporting a First Name Change
- Court order
- Marriage certificate
- U.S. Certificate of Naturalization (Form N-550 or –570)

Acceptable Source Documents for Reporting the Correction of a First Name
- Social Security card
- Current driver's license
- Birth certificate
- State ID
- U.S. Certificate of Naturalization (Form N-550 or N-570)
- Court order
- Marriage certificate
- W-2 Form
- Passport
- Unexpired U.S. military ID

- U.S. military discharge papers (Form DD214)
- U.S. Certificate of Citizenship (Form N-560 or N-561)
- Alien Registration Card (Form I-551 or I-151)

*Teacher loan forgiveness:* A teacher who is employed in a nonprofit private school and who is exempt from state certification requirements may have such employment qualify for loan forgiveness if the teacher can demonstrate rigorous subject knowledge and skills by taking competency tests in the applicable grade levels and subject areas. The competency tests must be recognized by five or more states for the purpose of fulfilling the highly qualified teacher requirements, and the score achieved by a teacher on each test must equal or exceed the average passing score of those five states. If a nonprofit private school teacher is subject to state certification, the teacher is not required to further demonstrate the knowledge and skills noted in this paragraph or to take additional competency tests.

### July 3, 2006

*Common forms:* The Department issues DCL FP-06-12 to announce a revised addendum for Consolidation loans. The revised form includes updates from the Appropriations Act. Lenders are required to use the new Consolidation loan addendum for all Consolidation loan applicants on or after July 15, 2006. The Department also issues DCL GEN-06-13/FP-06-13 to announce the publication of updated Teacher Loan Forgiveness Application and Teacher Loan Forgiveness Forbearance Form. Lenders are encouraged to provide the updated forms to loan forgiveness applicants as soon as possible, but must use the revised forms not later than December 16, 2006.

### July 31, 2006

*Common forms:* The Department issues DCL GEN-06-14/FP-06-14 to announce the publication of the reapproved Loan Discharge Application: Total and Permanent Disability with an updated expiration date. Lenders are permitted to use existing paper forms until the supply is exhausted, but are encouraged to use the reapproved forms with the new expiration date as soon as possible.

### August 2006

*Cohort default rate:* The school must submit any cohort default rate challenge within 45 days of the time frame begin date. The time frame begin date for domestic schools is the sixth business day after the Department officially releases the draft cohort default rates. For foreign schools, the time frame begin date is the day after the draft cohort default rate notification is received. Effective for cohort default rate appeals submitted by the school on or after the publication date of the August 2006 Cohort Default Rate Guide.

### August 9, 2006

The Department publishes interim final rules to amend the Federal Student Aid program regulations to implement the changes to the HEA resulting from P. L. 109-234, P. L. 109-171, P. L. 107-139, P. L. 109-67, and P. L. 109-66 in the *Federal Register* dated August 9, 2006.

*Annual loan limits:* A course that uses direct assessment rather than credit hours or clock hours to measure student progress is not an eligible course for purposes of teacher certification or recertification.

### September 8, 2006

*Academic year:* An academic year for a program of study is no longer defined as beginning on the first day of classes and ending on the last day of classes or examinations. For the purpose of an academic year, a week of instructional time is any consecutive 7-day period in which the school provides at least one day of regularly scheduled classes or examination, or, after the last scheduled day of classes for a term or payment period, at least one day of study for final examinations. Instructional time does not include periods of orientation, counseling, vacation, or homework.

*Disbursement rules:* Required verification for a study-abroad or foreign school student must be completed either by telephone or e-mail before each disbursement. The lender or guarantor must confirm that a new student has been admitted and that a continuing student is still enrolled. The applicable party must document these confirmations.

The lender must notify the home institution upon disbursing loan funds directly to a study-abroad student. When the school receives the notification, the school must notify the lender if the student is no longer eligible for the disbursement.

A PLUS loan for a student enrolled in a foreign school may be disbursed by EFT or master check to an account maintained by the school, or by an individual check made copayable to the borrower and the school, and mailed directly to the school.

*Estimated financial assistance:* The list of aid types that must be included in the estimated financial assistance (EFA) is amended by adding types of veterans' educational benefits, non-need-based fellowships and assistantships,

insurance programs for the student's education, and ACG and SMART Grants. Non-need-based employment earnings and aid that is included in the calculation of the student's expected family contribution (EFC) are excluded from the EFA, and that portion of non-federal non-need-based loans used to replace the EFC are excluded from the EFA.

*False certification loan discharge:* An individual may qualify for false certification loan discharge that results from a crime of identity theft if the individual does all of the following:

- Certifies that he or she did not sign the promissory note, or that any other means of identification used to obtain the loan were used without the authorization of the individual.
- Certifies that he or she did not knowingly receive or benefit from the proceeds of the loan that had been made without the individual's authorization.
- Provides to the lender a copy of a local, state, or federal court verdict or judgment that conclusively determines that the individual who is named as the borrower or endorser of the loan was the victim of a crime of identity theft by a perpetrator named in the verdict or judgment.

If the judicial determination of the crime does not expressly state that a FFELP loan(s) was obtained as a result of the crime, the individual must provide all of the following:

- Five different samples of his or her signature, two of which must be no more than one year before or one year after the date of the contested signature, or other means of identification of the individual, as applicable, corresponding to the means of identification used falsely to obtain the loan.
- A statement of facts that demonstrates that eligibility for the student loan in question was falsely certified.

Identity theft is considered the unauthorized use of the identifying information of another individual that is punishable under 18 U.S.C. 1028, 1029, or 1030, or substantially comparable state or local statute. Identifying information includes, but is not limited to:

- Name, SSN, date of birth, official state or government issued driver's license or identification number, alien registration number, government passport number, and employer or taxpayer identification number.
- Unique biometric data, such as fingerprints, voiceprint, retina or iris image, or unique physical representation.
- Unique electronic identification number, address, or routing code.
- Telecommunication of identifying information or access device [as defined in 18 U.S.C. 1029(e)].

If a loan was made as a result of the crime of identity theft that was committed by an employee or agent of the lender, or if at the time the loan was made, an employee or agent of the lender knew of the identity theft of the individual named as the borrower or endorser on the loan, the Department does not pay reinsurance, and does not reimburse the holder, for any amount disbursed on the loan. Also, the holder must refund to the Department any amounts received as interest benefits and special allowance payments with respect to the loan and cease future billings.

*Distance education:* A school that provides a program of study offered in whole or in part through telecommunications must be evaluated by an accrediting agency recognized by the Department as having the evaluation of distance education programs within its scope of recognition. Beginning July 1, 2006, the Department provides an 18-month waiver of the distance education evaluation requirement to certain distance education programs that were offered as of July 1, 2006, but for which the Department did not recognize the accrediting agency as having the evaluation of distance education programs within its scope of recognition.

Telecommunications technologies may be used in the foreign school classroom to supplement and support instruction offered as part of an otherwise eligible program, as long as the student and instructor are physically present in the classroom.

*Notification – student and borrower:* In order to credit a post-withdrawal disbursement of loan funds to outstanding school charges or to deliver a credit balance of funds directly to the student, or borrower in the case of a parent PLUS loan, the school must provide a written notice to the borrower within 30 days of determining that the student has withdrawn. In this notice, the school must request confirmation of the borrower's consent for the credit of a post-withdrawal disbursement of loan funds to the student's account, or for the direct delivery of loan funds to the student or parent, in the case of a parent PLUS loan. The school must explain that a borrower who does not confirm that a post-withdrawal disbursement of loan funds may be credited to outstanding school charges may not receive the direct delivery of any of those loan funds unless the school

concurs. The school must explain that the student, or parent in the case of a parent PLUS loan, may accept or decline some or all of the funds. The school also must explain the obligation of the borrower to repay any loan funds he or she chooses to have delivered.

The notice must inform the loan recipient of the deadline to respond and that the school will not deliver the funds if the school does not receive a timely response to the notice, unless the school opts to deliver a post-withdrawal disbursement based on a late response. The deadline may be set by school policy, but may not be less than 14 days after the date the school sent the notification. The deadline must be the same for funds to be applied to outstanding school charges and for funds to be directly delivered to the borrower.

If the school receives no response to the post-withdrawal disbursement notice, the school may not deliver any of those funds. If the school receives a timely response to the post-withdrawal disbursement notice, the school must deliver the funds in the manner specified by the student, or parent in the case of a parent PLUS loan. If the school receives a late response to the notice, the school may deliver the disbursement, provided that the school delivers all of the funds accepted, or the school may decline to deliver any funds. A post-withdrawal disbursement may not be delivered later than 120 days after the date of the school's determination that the student withdrew, unless an exception is granted by the Department. If the school decides not to deliver a post-withdrawal disbursement due to the untimely response of the borrower, the school must provide written notification to the borrower of the denial of the post-withdrawal disbursement.

The school must document in the student's file the result of any notification made of the student's right to cancel or accept all or a portion of the funds, and the final determination made concerning the post-withdrawal disbursement.

*Rehabilitation of defaulted loans:* A borrower may not include in a rehabilitation agreement a loan on which the borrower has been convicted of, or has pled *nolo contendere* or guilty to, a crime involving fraud in obtaining Title IV funds.

*Teacher loan forgiveness:* An elementary or secondary school operated by the Bureau of Indian Education (BIE) or operated on an Indian reservation by an Indian tribal group under contract with the BIE is also considered a qualifying school for the purposes of this program. Lenders may implement this provision on or after July 3, 2006.

**September 30, 2006**

President Bush signs into law the Third Higher Education Extension Act (THEEA) of 2006 (P. L. 109-292) on September 30, 2006. The THEEA extends the HEA through June 30, 2007. Unlike previous extensions, THEEA contains provisions that amend the HEA.

*Eligibility – lender:* An eligible lender may not enter into a new relationship to make or hold a FFELP loan as a trustee for a school or for an organization affiliated with a school. If an Eligible Lender Trustee (ELT) relationship was established prior to September 30, 2006, it may continue, and be renewed, as long as the relationship remains in effect after September 30, 2006, and the ELT held at least one loan on behalf of the school as of that date.

**October 6, 2006**

The Department issues DCL FP-06-15 to clarify rules related to the payment of special allowance on some tax-exempt obligations.

**November 1, 2006**

The Department publishes final rules that amend the Federal Student Aid program regulations to implement P. L. 109-171, P. L. 108-409, P. L. 107-139, P. L. 109-66, P. L. 109-67, and P. L. 109-234 in the *Federal Register* dated November 1, 2006.

**December 1, 2006**

The Department issues DCL GEN-06-20/FP-06-16 to clarify Consolidation loan eligibility requirements and the requirement to complete the Loan Verification Certificate (LVC) in a timely manner. The Department also publishes DCL GEN-06-21/FP-06-17 to provide guidance on changes from the Third Higher Education Extension Act (P.L. 109-292), particularly with respect to Eligible Lender Trustee (ELT) relationships.

*Consolidation loans:* A Federal or a Direct Consolidation loan borrower loses eligibility for a subsequent Consolidation loan unless he or she has eligible loans made before or after the date the Consolidation loan was made. A pre-existing Consolidation loan qualifies as an eligible loan made before or after the consolidation loan. This provision may have been implemented earlier by the guarantor.

A borrower may not consolidate a loan(s) for which he or she is wholly or partially ineligible due solely to the borrower's error but may consolidate any eligible loan(s) that he or she may have. A lender may implement this provision no earlier than July 1, 2000.

A borrower may consolidate a single Consolidation loan into a Direct Consolidation loan if the single Consolidation loan is held by the guarantor as a result of a bankruptcy claim and the borrower is seeking an income-contingent repayment schedule.

*Disbursement rules:* For a loan disbursed directly to a student enrolled in a study-abroad program or at a foreign school, the lender or guarantor may verify the student's enrollment via telephone, e-mail, or facsimile and must confirm that the student is enrolled at least half time. For a student enrolled in a study-abroad program, the enrollment verification must be provided by the home institution. For a student enrolled at a foreign school, the enrollment verification must be provided by an official authorized by the foreign school to act on the school's behalf in administering the FFELP. A lender may make a direct disbursement to a student attending a foreign school only upon the request of the authorized official.

*Loan certification:* If a school participates in both the FFELP and the Direct Loan Program, the school must determine the student's maximum Stafford loan eligibility under the program in which the school is participating for Stafford loan purposes. A school may certify loans of different types (Stafford, PLUS) under separate programs for the same period of enrollment for the same student. A school is prohibited from certifying a loan of the same type under each program for the same student for the same period.

#### December 28, 2006

The Department publishes interim final rules to implement changes to the HEA resulting from the enactment of P. L. 109-292 in the *Federal Register* dated December 28, 2006.

## 2007

#### January 1, 2007

*Eligibility – lender:* Effective January 1, 2007, a school involved in an eligible lender trustee (ELT) relationship must meet the eligibility requirements applicable to a school acting as a lender, with the exception of the requirement to award servicing contracts on a competitive basis.

#### March 2007

The Department issues DCL FP-07-03 announcing the approval of the revised Federal Consolidation Loan Application and Promissory Note, and related documents, for use in the FFELP.

The Department issues DCL FP-07-02 announcing a revised promissory note addendum and Plain Language Disclosure that explain changes made to Federal Stafford annual loan limits by the Higher Education Reconciliation Act of 2005.

#### April 2, 2007

The Department issues DCL FP-07-03 announcing the approval of a corrected Federal Consolidation Loan Application and Promissory Note, and related documents.

#### May 22, 2007

*Consolidation loans:* The Department provides guidance in DCL GEN-07-03/FP-07-07 to clarify the circumstances under which a loan holder may decline to complete a Consolidation Loan Verification Certificate (LVC). The list of extenuating circumstances has been expanded and Manual text is expanded to note the cases in which the loan holder must notify the Federal Student Aid Financial Partners staff of its decision not to complete an LVC.

#### June 11, 2007

The Department issues DCL GEN-07-04/FP-07-08 announcing the approval of the Military Deferment Request form for use in the FFELP.

#### July 1, 2007

*Annual loan limit:* For Stafford loans first disbursed on or after July 1, 2007, a dependent student who is taking preparatory coursework necessary for enrollment in an undergraduate program is eligible to borrow the base Stafford annual loan limit of $2,625. An independent student, or a dependent student whose parent is not eligible for a PLUS loan, who is taking preparatory coursework necessary for enrollment in an undergraduate program is eligible to borrow a combined subsidized and unsubsidized Stafford annual loan limit of $6,625, of which no more than $2,625 may consist of subsidized Stafford loan funds.

For Stafford loans first disbursed on or after July 1, 2007 changes to the annual loan limits are as follows:

- The first-year undergraduate base Stafford annual loan limit has been increased from $2,625 to $3,500.

- The second-year undergraduate base Stafford annual loan limit has been increased from $3,500 to $4,500.

- The additional unsubsidized Stafford annual loan limit for a student who has a bachelor's degree and is enrolled or accepted for enrollment in coursework necessary for a professional credential or certification from a state that is required for employment as a teacher in an elementary or secondary school in that state has been increased from $5,000 to $7,000.

- The additional unsubsidized Stafford annual loan limit for 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 has been increased from $5,000 to $7,000.

- The additional unsubsidized Stafford annual loan limit for a graduate or professional student has been increased from $10,000 to $12,000.

*Claim filing requirements:* The lender of a Consolidation loan must submit to the guarantor of the Consolidation loan a request for partial discharge of the Consolidation loan for the portion that represents any underlying loans that are eligible for discharge due to disability (only for comade Consolidation loans), closed school, death, false certification, unpaid refund, or another discharge type. Upon approval of the discharge, the guarantor will process a payment for the discharged principal and interest portion of the Consolidation loan and forward the payment to the Consolidation loan lender.

*Delivering loan funds:* Prior to delivering FFELP funds to a transfer student, the school must determine the amount of an ACG or SMART grant funds awarded and delivered to the student during the award year. Effective for eligibility determinations made on or after July 1, 2007, unless implemented earlier by the school.

*Disability discharge (total and permanent):* The Department issues guidance regarding various aspects of loan servicing for comade Consolidation and PLUS loans, and for PLUS loans with an endorser when one of the comakers or the endorser asserts that he or she is totally and permanently disabled.

These provisions specify when a comaker or endorser may be eligible for total and permanent disability (TPD) discharge of a portion of the loan or of his or her obligation to repay the loan; when the lender retains the loan rather than assigning it to the Department as part of the discharge claim process; how the lender should service the loan until a discharge eligibility determination is final; and how the loan balance may be effected by the disabled comaker's or endorser's final discharge.

If a comaker of a joint Consolidation loan or PLUS loan applies for a TPD loan discharge, the lender must continue servicing the loan for the non-disabled comaker. The lender must protect the status of the loan during the conditional discharge period so that the loan does not become delinquent or more delinquent. The lender may apply an administrative forbearance on the entire loan if the non-disabled comaker is not eligible for or does not choose another repayment option, deferment, discretionary forbearance, or reduced-payment forbearance. The non-disabled comaker may qualify for a deferment on the loan for the period during which the disabled comaker is in a conditional discharge status. The deferment may begin no earlier than the date that the lender receives the disabled comaker's loan discharge application and ends on the date of the disabled comaker's final discharge determination, or the date that the non-disabled comaker would become otherwise ineligible for additional deferment.

The lender must report the correct status of the non-dischargeable portion in a timely manner so that the guarantor can ensure accurate NSLDS reporting. If the discharge is denied, the lender and guarantor may continue reporting the full balance under the borrower currently being reported. If a final discharge is granted, the lender continues to report the non-discharged portion of the Consolidation loan under the non-disabled comaker's name and Social Security number.

*Eligibility – borrower and student:* A student pursuing a bachelor of pharmacology program of study is no longer eligible for increased unsubsidized Stafford loan limits available to health profession students. Effective with the publication date of the 07-08 FSA Handbook.

*Forbearance:* A lender may grant an administrative forbearance on a loan during a time when a nondisabled comaker is solely responsible for the repayment of the loan. The administrative forbearance may be applied in conjunction with a period of authorized deferment to satisfy a period of delinquency that remains outstanding after the application of an authorized deferment.

*Loan amount:* A school is not permitted to prorate the Stafford annual loan limits for an undergraduate borrower enrolled in a credit-hour program that uses standard terms during a final period of study that contains the number of terms in the program's academic year and includes a term(s) in which the borrower is enrolled less than half time. Effective with the publication of Volume 3 of the 07-08 FSA Handbook.

**August 15, 2007**

*Loan certification:* A school may not have a general policy that limits the number of times a student may have a full Stafford annual loan limit at any grade level.

**September 7, 2007**

The Department issues DCL GEN-07-05 announcing guidance regarding a school release of student information.

**September 24, 2007**

The Department issues DCL FP-07-09 announcing additional guidance for guarantors evaluating applications for FFELP false certification loan discharges based upon a borrower's claim that a school did not properly determine the borrower's ability-to-benefit.

**September 27, 2007**

President Bush signs into law the College Cost Reduction and Access Act (P.L.110-84) (CCRAA) on September 27, 2007. The CCRAA reduces payments to lenders and guarantors participating in the FFELP, lowers the interest rates on certain Stafford loans, expands loan repayment options for borrowers, and directs the Department to undertake a pilot program for auctioning the rights to originate FFELP parent PLUS loans.

**September 30, 2007**

President Bush signs P.L.110-93 on September 30, 2007, to make permanent the Department's authority to issue waivers and modifications of statutory and regulatory provisions under the Higher Education Relief Opportunities for Students Act of 2003. The waivers and modifications will remain in effect until September 30, 2012, unless the Department issues a notice terminating or changing those actions before that date.

**October 1, 2007**

*Deferment:* The military active duty student deferment is available for a period of up to 13 months following the completion of active duty military service to a borrower who is a member of the National Guard or Armed Forces Reserve (including a member in retired status), and is called or ordered to active duty service while enrolled on at least a half-time basis in an eligible school at the time of, or within 6 months prior to, his or her activation.

The current military service deferment has been revised to eliminate the limitations originally placed on this deferment. It is no longer a loan-based deferment; it is, instead, a borrower-based deferment. In addition, the 3-year limitation has been removed. It is now available to a borrower who has an outstanding balance on any FFELP loan that was in repayment on October 1, 2007, for all periods of active duty service that include that date or begin on or after that date. A military service deferment may be granted to a borrower whose deferment eligibility expired due to the prior 3-year limitation, if that borrower was still serving on eligible active duty on or after October 1, 2007. The deferment may be applied to the borrower's eligible loan(s) retroactively from the date the prior deferment expired until the end of the borrower's active duty service.

The military service deferment period for a borrower whose qualifying service includes October 1, 2007, or begins on or after that date, is extended for 180 days after the date the borrower is demobilized from active duty service. The additional 180-day deferment is available to a borrower each time the borrower is demobilized from qualifying active duty service. A lender may grant expanded deferment benefits without receiving a new deferment request from the borrower or borrower's representative. If a deferment is granted in this manner, the lender must notify the borrower of the additional benefits and provide the borrower the opportunity to decline the deferment.

If a borrower is eligible for both a military service deferment and a military active duty student deferment, the 180-day extended military service deferment and the 13-month active duty student deferment periods will apply concurrently.

One of the eligibility criteria for the economic hardship deferment is revised to state that a qualifying borrower's monthly income may not exceed an amount equal to 150% of the poverty line applicable to the borrower's family size.

*Exceptional performance:* The exceptional performer designation is eliminated on October 1, 2007, per statutory changes from the College Cost Reduction and Access Act

(P.L.110-84). Eligible default claims filed on or after October 1, 2007, are paid at the insurance rate applicable to each loan.

*Lender fee:* Beginning with loans first disbursed on or after October 1, 2007, a lender is charged a lender fee equal to 1.0% of the principal amount of each FFELP loan made.

*Special allowance:* For loans first disbursed on or after October 1, 2007, the special allowance factors used to calculate special allowance payments are based on whether or not the lender qualifies as an eligible not-for-profit holder. As prescribed in the College Cost Reduction and Access Act (CCRAA), an eligible not-for-profit holder is entitled to a higher special allowance payment. The CCRAA provides a new definition for Eligible Not-for-Profit Holder, as it relates to special allowance payments on loans first disbursed on or after October 1, 2007.

#### October 29, 2007

*Claim filing requirements:* The lender must notify the guarantor if, after filing a default claim, it receives documentation that the loan(s) qualifies for a different type of claim payment. Requests for loan discharge for a spouse or parent of a victim of the September 11, 2001, terrorist attacks received by the lender on or after October 29, 2007.

*Spouses and Parents of Victims of September 11, 2001, Loan Discharge:* Loan discharge provisions are available to the spouses and parents of victims of September 11, 2001, per the Third Higher Education Extension Act of 2006 (P. L. 109-292).

#### November 1, 2007

*Eligibility – lender:* For a school or school-affiliated organization that makes or originates loans through an eligible lender trustee (ELT), the requirement for a school-affiliated organization to limit lending to Stafford loans for graduate and professional students, and only at one school, has been deleted. The requirement to include ELT loans in an annual compliance audit has been deleted for both the school and the school-affiliated organization involved in an ELT relationship.

#### November 9, 2007

The Department issues DCL GEN-07-08 announcing the approval of the Loan Discharge Application: Spouses and Parents of September 11, 2001 Victims.

#### December 21, 2007

President Bush signs into law P.L.110-153 to make technical changes to the College Cost Reduction and Access Act (P.L.110-84).

## 2008

#### January 1, 2008

*Deferment:* A borrower who is receiving a benefit under a federal or state public assistance program is eligible for an economic hardship deferment. Effective for economic hardship deferments granted by the lender on or after January 1, 2008.

*Distance education:* The Department's 18-month waiver applicable to certain distance education programs (begun July 1, 2006) ends. A school that provides a program of study in whole or in part through telecommunications must be evaluated by an accrediting agency recognized by the Department as having the evaluation of distance education programs within its scope of recognition. The Department provided a waiver to certain schools if it did not recognize the accrediting agency as having the distance education evaluation as part of its scope and, in the interim, schools without the necessary evaluation were permitted to certify loans for students in those programs. This waiver ends effective January 1, 2008.

#### January 8, 2008

The Department issues DCL GEN-08-01/FP-08-01 to summarize changes from the College Cost Reduction and Access Act of 2007 (CCRAA).

*Common forms:* The Department issues DCL FP-08-02 to announce the publication of revised addenda for both Stafford and PLUS loans, and a new Federal Consolidation Loan Application and Promissory Note.

#### March 24, 2008

President Bush signs into law the Higher Education Extension Act of 2008 on March 24, 2008. This bill extends expiration of provisions of the Higher Education Act of 1965, as amended, from March 31, 2008, to April 30, 2008.

#### April 14, 2008

The Department issues DCL GEN-08-03/FP-08-03 to provide updates and guidance regarding Lender of Last Resort (LLR) provisions.

**April 18, 2008**

The Department issues DCL GEN-08-04/FP-08-04 to announce increases in Stafford aggregate loan limits for graduate and professional students enrolled in specific health care programs of study.

*Aggregate loan limits:* The Stafford aggregate loan limit applicable to graduate and professional students enrolled in certain health profession programs is increased from $189,125 to $224,000. Effective April 18, 2008.

**May 5, 2008**

The Department issues DCL GEN-08-05/FP-08-05 to provide additional guidance regarding LLR provisions.

**May 7, 2008**

President Bush signs into law the Ensuring Continued Access to Student Loans Act of 2008. This bill increases Stafford annual and aggregate loan limits, authorizes flexibility in determining PLUS applicant adverse credit, provides new repayment terms for parent PLUS loans, provides authority for the Secretary to advance funds to guarantors and purchase FFELP loans, amends provisions related to LLR loans and expands eligibility for ACG and SMART Grants.

*Lender of last resort:* Provisions for lenders of last resort (LLR) are amended, stating that the LLR may provide loans to an entire school's FFELP borrowers rather than on a borrower-by-borrower basis; provisions are also amended to allow the LLR to lend Stafford and PLUS loans to all eligible students and parents. Effective May 7, 2008.

**May 9, 2008**

The Department issues DCL GEN-08-06/FP-08-06 to provide additional guidance regarding a school's use of preferred lender lists.

*Preferred lender arrangement:* The Department provides acceptable alternatives to recommended lender lists so that schools may provide support to their prospective and enrolled student and parent borrowers. Effective for information provided by the school on or after May 9, 2008.

**June 18, 2008**

The Department issues DCL GEN-08-08/FP-08-07 to provide guidance on the provisions of the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA) (P.L. 110-227).

**July 1, 2008**

*Academic year:* The school's certification of the student's loan eligibility must be based on the academic year for the type of program in which the student is enrolled. Policy defines eligibility for students enrolled in and/or transferring to credit-hour programs of study with nonstandard terms that are substantially equal in length and comprised of at least nine weeks of instructional time (SE9W). Policy also defines loan eligibility for students enrolled in and/or transferring to clock-hour programs, non-term-based credit-hour programs, and credit-hour programs with nonstandard terms that are not SE9W. Effective with the publication of Volume 3 of the 08-09 FSA Handbook.

*Aggregate loan limit:* Certain aggregate loan limits increase for students with Stafford loans. Dependent undergraduate students may borrow an aggregate of not more than $31,000 in Stafford loan funds, no more than $23,000 of which may be subsidized. Independent undergraduate students may borrow up to $57,500 in Stafford funds, no more than $23,000 of which may be subsidized.

*Annual loan limit:* Certain annual loan limits increase for Stafford loans first disbursed on or after July 1, 2008, for loan periods that begin on or after that date, as follows:

- First-year dependent undergraduate students – $5,500, no more than $3,500 of which may be subsidized.
- Second-year dependent undergraduate students – $6,500, no more than $4,500 of which may be subsidized.
- Third-year and beyond dependent undergraduate students – $7,500, no more than $5,500 of which may be subsidized.

The Stafford loan limit for a student who transfers between programs at the same school or who completes one program and enters another program at the same school, or who transfers between schools is clarified. The school may certify for the loan period in the new program or at the new school only the student's remaining eligibility for that academic year. Effective for loans certified on or after July 1, 2008, unless implemented earlier by the school on or after November 1, 2007, for determining the minimum loan period for a student who transfers between schools and enrolls in a clock-hour program, a non-term-based credit-hour program, or a credit-hour program with nonstandard terms that are not substantially equal or at least 9 weeks in

length. For increases in the additional unsubsidized Stafford annual loan limit, Stafford loans first disbursed on or after July 1, 2008.

For the purpose of determining the frequency with which a student may receive the Stafford annual loan limit when enrolled in a nonstandard, term-based credit-hour program, there are two categories of such programs: those with terms that are substantially equal in length and each of the terms contains no less than nine weeks of instructional time and those with terms that are not substantially equal in length or that include terms that are not at least 9 weeks in length. Programs with terms that are substantially equal in length and with at least 9 weeks of instructional time are now treated like standard, term-based credit-hour programs for determining the frequency of the Stafford annual loan limit and for determining increases in the Stafford annual loan limit based on grade level changes during a single academic year. Changes in the frequency of annual loan limits are effective for loans certified on or after July 1, 2008, unless implemented earlier by the school on or after November 1, 2007. Grade level change policy is effective with the publication date of Volume 3 of the 08-09 FSA Handbook unless implemented earlier by the school on or after November 1, 2007.

Programs of study using nonstandard terms that are substantially equal in length and at least 9 weeks in length (SE9W) in a traditional academic year calendar may use an SAY as an option to a BBAY to determine the frequency of Stafford annual loan limits. A BBAY for programs that are eligible to use BBAY1 (programs with standard terms or nonstandard terms that are SE9W and are offered in a traditional academic year calendar) and BBAY2 (programs with standard terms or nonstandard terms that are SE9W and are *not* offered in a traditional academic year calendar) cannot begin with a term in which the student is not enrolled. However, a BBAY may begin with a term in which the student is enrolled less than half-time, except that the student is not eligible to receive, or receive the benefit of, a loan for that initial term. When the calendar period associated with all of the terms in an SAY, BBAY1, or BBAY2 has elapsed, a student regains eligibility for new Stafford annual loan limits for a new BBAY regardless of whether the student attends all of the terms or completes all of the credit hours or weeks of instructional time in the program's Title IV academic year. The school must use a BBAY3 for a clock-hour program, a non-term-based credit-hour program, a nonstandard term-based program with terms that are *not* SE9W, and a credit-hour program with standard and nonstandard terms that does not qualify to use an SAY. Effective with the publication date of Volume 3 of the 08-09 FSA Handbook in a credit-hour program that uses nonstandard terms that are substantially equal and at least nine instructional weeks in length (SE9W) for determining the final period of study for an undergraduate borrower.

*Grade Level Changes in a Dual-Degree Program*

A student who is enrolled in a program in which the student completes both a bachelor's degree and either a graduate or professional degree within the same program is considered to be enrolled in a dual-degree program. For the purpose of Stafford annual loan limits, the school must consider such a student to be an undergraduate for at least the first three years of the program. The school determines at what point after three years the student ceases to be an undergraduate and becomes eligible for the increased loan limits available to a graduate student.

For grade level changes in a dual-degree program, July 1, 2008, unless implemented by the school no earlier than November 1, 2007.

*Authorizations and certifications:* The school is no longer required to obtain a borrower's authorization to deposit FFELP loan proceeds into a borrower's designated bank account. Regulations are expanded to acknowledge and regulate the use of stored-value and prepaid debit cards. Effective for funds deposited by the electronic funds transfer (EFT) directly to a student's or parent's bank account or to a stored-value card by the school on or after July 1, 2008, unless implemented earlier by the school on or after November 1, 2007.

The school is not required to obtain the borrower's authorization to credit current-year loan funds toward prior-year charges for tuition, fees, and room and board. The school is required to obtain the borrower's authorization to credit current-year loan funds toward prior-year charges for other educationally-related expenses. Effective for educationally-related expenses paid by the school on or after July 1, 2008, unless implemented earlier by the school on or after November 1, 2007.

*Borrower dispute:* A borrower may assert certain defenses against the repayment of a loan received for attendance at any postsecondary school if the loan was made by the school or a school-affiliated organization or was made by a lender that was designated by the school, affiliated with the school, or that provided improper inducements to the school to obtain the loan business. Effective July 1, 2008.

*Claim filing requirements:* A lender is not required to include an assignment of the proof of claim in a bankruptcy claim file. The lender must include instead the Transfer of Claim to Other Than for Security form and the Notice of

Transfer of Claim Other Than for Security form. Effective for original assignments of proof of claim filed by the lender on or after July 1, 2008, unless implemented earlier by the guarantor.

Acceptable death claim documentation now includes an accurate and complete photocopy of the original or certified copy of the death certificate, in addition to the already acceptable documentation of an original or certified copy of a death certificate. In addition, if a lender discovers that it has on file a photocopy of a death certificate for an account that was never submitted as a death claim, or was denied as a death claim (because at the time of original receipt, copies were not acceptable proof of the borrower's death), the lender must file the death claim within 60 days of that discovery. Effective for death discharge requests filed by the lender based on determinations or re-determinations of eligible photocopies on or after July 1, 2008, unless implemented earlier by the lender on or after November 1, 2007.

A lender may use the Request for Reimbursement Due to Partial Discharge of a Federal Consolidation Loan form to request partial discharge of some underlying portion of the Consolidation loan when that underlying portion is eligible for loan discharge due to total and permanent disability (only applicable to comade loans), closed school, death, or false certification. Effective upon publication of the form.

*Common forms:* A lender may use the FFELP Teacher Loan Forgiveness Request form to file for reimbursement based on the borrower's eligibility for teacher loan forgiveness. Effective with the publication of that form.

*Consolidation loans:* The lender may capitalize unsubsidized interest on a Consolidation loan during a period of in-school deferment only at the end of that deferment. Effective for unsubsidized interest capitalized on Consolidation loans for periods of in-school deferment on or after July 1, 2008, unless implemented earlier by the lender on or after November 1, 2007.

Policy acknowledges use of electronic delivery methods by lenders. It is suggested that consolidating lenders provide loan applicants with a complete explanation of any applicable loss of loan benefits if the borrower is consolidating loans from other loan programs into a Consolidation loan and an explanation of any special benefits that the lender may offer on Federal Consolidation loans and the criteria for obtaining those benefits. Effective July 1, 2008, unless implemented earlier by the lender.

*Credit bureau reporting:* If a loan is discharged due to school closure or false certification, the lender must request that the credit bureau remove from the individuals credit history any negative or inaccurate information regarding that loan. Effective for loans discharged on or after July 1, 2008.

If the borrower makes a valid identity theft report or notification to a credit bureau, the lender must suspend credit bureau reporting for a period of 120 days while it determines the legal enforceability of the loan. If the lender determines that the loan does not qualify for discharge due to the identity theft but that it is nonetheless unenforceable, the lender must notify the credit bureau of that determination. Effective for reports of identity theft received on or after July 1, 2008, unless implemented earlier by the lender on or after November 1, 2007.

*Deferment:* The lender may grant certain deferments on a FFELP loan using the simplified deferment processing method and basing such a deferment on information from an authoritative electronic database maintained or authorized by the Department when that information supports the borrower's eligibility for deferment for the same reason and the same time period. Effective for deferment requests received by the lender on or after July 1, 2008, unless implemented earlier by the lender on or after November 1, 2007.

A PLUS borrower may request an in-school deferment on a PLUS loan first disbursed on or after July 1, 2008, and all of his or her other loans (PLUS, Stafford, Consolidation loans) if the borrower meets the required criteria. In addition, a parent PLUS borrower may request an in-school deferment of a PLUS loan first disbursed on or after July 1, 2008, based on the in-school status of the student for whom the loan was obtained.

A borrower or a borrower's representative may request the Armed Forces or military deferment. Effective for Armed Forces or military deferments granted by the lender on or after July 1, 2008, unless implemented earlier on or after November 1, 2007.

*Delivering loan funds:* The school is permitted to credit a student's account with loan funds from the current year to satisfy up to $200 in prior-year charges.

If a student does not pick up a check within 21 days of the date of the school's notice that the check is available to pick up, the school must immediately mail the check to the borrower, initiate an electronic funds transfer (EFT) of the funds to the borrower's bank account, or return the loan funds to the lender. Effective for checks issued for direct payment by the school on or after July 1, 2008, unless implemented earlier by the school on or after November 1, 2007.

The school may attempt to deliver loan funds for up to a total of 240 days but if the borrower or student has not received the funds or negotiated them by the end of that period, the school is required to return the loan funds to the lender. If the school chooses not to make additional attempts to return the loan funds after its initial notification to the borrower or student, the school must return the loan funds to the lender within 45 days of the date that the funds were returned to the school or rejected. Effective for loan funds delivered on or after July 1, 2008, unless implemented earlier by the school on or after November 1, 2007.

*Disability discharge (total and permanent):* A borrower must submit the total and permanent disability (TPD) certification to the lender within 90 days of the date that the physician completed the certification. If the borrower does not comply with the 90-day time frame, then the physician must complete a new TPD certification and the borrower must submit the new certification to the lender within 90 days of the date on which it is completed. Effective for total and permanent disability applications received by the lender on or after July 1, 2008.

A borrower is not eligible for a total and permanent disability discharge if the borrower receives a new Title IV loan after the date that the physician certifies the loan discharge application. The 3-year conditional period is redefined as the prospective period that begins with the date of the physician's certification of the loan discharge application. Effective for total and permanent disability discharge applications received by the lender on or after July 1, 2008.

*Due diligence:* Federal due diligence requirements do not preempt the provisions of the Fair Credit Reporting Act (FCRA) that provide relief to an individual while the lender determines the legal enforceability of a loan. Effective for reports of identity theft with respect to a FFELP loan on or after July 1, 2008, unless implemented earlier by the lender on or after November 1, 2007.

*Eligibility – borrower and student:* The school must ensure that it obtains and retains documentation regarding the borrower's and/or student's citizenship or eligible non-citizen status. The acceptable types of documentation have changed. Implementation of the federal citizenship documentation standards is determined by the Department.

A financial aid administrator (FAA) may make a dependency override for a student based on the dependency override for that same student made by another FAA at a prior school without gathering supporting documentation. The dependency override of the prior FAA must be within the same award year. The school that uses the dependency override of another school must retain the SAR/ISIR that was used as the basis for the original dependency override. For subsequent award years, the FAA must make his or her own dependency override determination.

*Enrollment status:* For an undergraduate program, the school's definition of half-time enrollment must equate to at least half of the academic workload of the applicable minimum full-time enrollment definition for that program. Effective for enrollment periods that begin on or after July 1, 2008.

*Entrance counseling:* The school must conduct entrance counseling with a Grad PLUS borrower before he or she may obtain his or her first Grad PLUS loan. Effective for counseling provided by the school on or after July 1, 2008, unless implemented earlier by the school on or after November 1, 2007.

*Estimated financial assistance:* Regulations revise the way in which TEACH grants are counted in the student's estimated financial assistance; clarify that TEACH grants do not affect Stafford annual and aggregate loan limits; prescribe the effect of the TEACH grant on the return of Title IV calculation; define the impact of obtaining a TEACH grant on total and permanent disability discharge determinations; and clarify that TEACH grants do not affect the school's cohort default rate. For provisions related to estimated financial assistance and Stafford loan limits, effective for loan eligibility determinations made by the school on or after July 1, 2008. For provisions regarding the return of Title IV funds, effective for TEACH grant recipients who withdraw on or after July 1, 2008. For total and permanent disability discharge determinations, effective for applications received by the lender on or after July 1, 2008. For all other provisions, effective July 1, 2008.

*Federal default fee:* If the lender does not remit the federal default fee within 45 calendar days after the disbursement of the loan proceeds, the guarantor may cancel the guarantee. Effective for federal default fees remitted by the lender on loan disbursements on or after July 1, 2008.

*Forbearance:* If a forbearance is granted to align PLUS loan repayment based on the dependent student's enrolled status, the lender must monitor the dependent student's enrollment status for both the forborne and deferred PLUS loan(s) or the lender must find an alternative basis for granting a forbearance on the pre-July 1, 2008, PLUS loan(s) that is not eligible for deferment. Effective for PLUS borrowers who have loans first disbursed prior to July 1, 2008, and subsequently obtained loans disbursed on or after July 1, 2008.

*Inducements:* A lender is not permitted to offer specific inducements to any school or other party in order to secure applications for FFELP loans or to secure FFELP loan volume. Lenders are prohibited from providing preferential rates for or access to the lenders other financial products; computer hardware or non-loan processing or non-financial aid-related software at below-market rental or purchase cost; or printing or distribution of college catalogs or other materials at reduced or no cost. Revisions provide an explicit list of permitted activities. Effective for lender activities that occur on or after July 1, 2008.

The Department will impose a rebuttable presumption that any inducement provided to a school was provided in an attempt to gain loan volume in violation of prohibited inducement provisions. The Department will require the lender to prove that the inducement was permissible and not for the purpose of gaining loan applications or volume. Effective for administrative actions against FFELP lenders on or after July 1, 2008.

*Interest payment and capitalization:* The lender may capitalize unsubsidized interest on a Consolidation loan during periods of in-school deferment only at the end of that deferment. Effective for unsubsidized interest capitalized on Consolidation loans for periods of in-school deferment on or after July 1, 2008, unless implemented earlier by the lender on or after November 1, 2007.

*Interest rates:* Subsidized Stafford loans for undergraduate borrowers that are first disbursed on or after July 1, 2008, and before July 1, 2009, have a fixed interest rate of 6%. The interest rate for subsidized Stafford loans for undergraduate borrowers declines incrementally through July 1, 2011, and then return to a higher rate for loans first disbursed on or after July 1, 2012.

*Interest subsidy:* The Department ends its obligation to pay the interest subsidy on a loan that the lender determines is legally unenforceable due to borrower's assertion of identity theft. Effective for loans deemed unenforceable on or after July 1, 2008.

*Late disbursement/post-withdrawal disbursement:* The school may deliver a late disbursement up to 180 days after the last date of the student's eligible attendance. The school may not appeal to the Department for an extension of the late delivery time frame. The school may also deliver a post-withdrawal disbursement up to 180 days after the date on which it determines that a student has withdrawn. Effective for late disbursements and post-withdrawal disbursements delivered by the school on or after July 1, 2008.

*Loan certification:* The school may not delay the certification or processing of a loan due to the borrower's choice of lender or guarantor. Effective for loans certified by the school on or after July 1, 2008.

*Loan amount:* A school is not permitted to prorate the Stafford annual loan limits for an undergraduate borrower enrolled in a credit-hour program that uses nonstandard terms that are SE9W during a final period of study that contains the number of terms in the program's academic year and includes a term(s) in which the borrower is enrolled less than half time. Effective with the publication date of Volume 3 of the 08-09 FSA Handbook.

*Loan period:* The maximum period of time for which a school may certify a Stafford or PLUS loan is an academic year. The 12-month maximum loan period is eliminated. The school may certify a loan for the calendar period during which the student is expected to successfully complete the credit or clock hours and the instructional weeks in the Title IV academic year. Effective for loan periods beginning on or after July 1, 2008.

The minimum loan period is reduced to a single term for nonstandard term-based credit-hour programs of study with terms that are substantially equal in length and for which no term provides less than 9 weeks of instructional time. The minimum loan period for a student who transfers, or who completes one program and begins another within an academic year, is the shorter of the remainder of the program or the remainder of the academic year associated with the previous program. Effective for loan periods beginning on or after July 1, 2008, unless implemented earlier by the school on or after November 1, 2007.

*Notification – borrower and student:* The school must provide to a Grad PLUS applicant information regarding eligibility for Stafford loan funds, comparative information on the two loan programs, and an opportunity to apply for the maximum Stafford loan eligibility if the applicant has not already done so. Effective for Grad PLUS loans certified on or after July 1, 2008, unless implemented earlier by the school on or after November 1, 2007.

The school must notify the borrower of the right to cancel the loan using one of two standards. Which standard the school uses is determined by whether the borrower provided affirmative confirmation of his or her desire to receive the loan. The school must honor the borrower's cancellation request when that request is received within the specified time frames. Effective for loans disbursed on or after July 1, 2008, unless implemented earlier by the school on or after November 1, 2007.

*Payment period:* Payment periods for a program measured in credit hours with standard terms or with nonstandard terms that are substantially equal in length, for all Title IV programs, must correspond with the terms of the academic year. For all other types of academic programs, for the purposes of certifying eligibility for FFELP loan funds, the loan period must be divided into two payment periods. Effective for disbursements delivered by the school on or after July 1, 2008.

*Preferred lender arrangement:* The school may recommend a list of lenders to its current and prospective students and their families but the list must comply with specific regulatory criteria. A school that chooses not to use a recommended lender list may nonetheless provide certain information to its students and prospective students and their families. Effective for recommended lender lists provided to students and parents on or after July 1, 2008.

*Record retention:* The holder of an electronically signed MPN must retain the original MPN for at least 3 years after all of the loans made on the MPN have been satisfied. The Department may require the lender to provide certain documents to resolve a factual dispute with respect to the collection of a defaulted loan assigned to the Department. The lender must retain additional records to substantiate the disbursement of loan funds. Effective for electronically signed promissory notes in existence on July 1, 2008, and all electronically signed promissory notes created on or after that date. The requirements that the lender retain and provide additional documentation to the Department are effective for assignments made on or after July 1, 2008.

*Special allowance:* The Department ends its obligation to pay special allowance on a loan that the lender determines is legally unenforceable due to the borrower's assertion of identity theft. Effective for loans deemed unenforceable on or after July 1, 2008.

### July 7, 2008

*Common forms:* The Department issues DCL GEN-08-11/FP-08-09 to announce publication of the updated Teacher Loan Forgiveness Application and Teacher Loan Forgiveness Forbearance form. Lenders are encouraged to implement the forms as soon as possible, but must provide the updated forms to borrowers requesting loan forgiveness on or after January 1, 2009.

### August 14, 2008

President Bush signs into law the Higher Education Opportunity Act of 2008 (HEOA) (P.L. 110-315), reauthorizing the FFELP and other programs under the Higher Education Act of 1965, as amended, and making numerous changes to those programs.

*Ability to benefit:* A student without a high school diploma or its equivalent may become eligible to receive Title IV aid upon satisfactory completion of six credit hours or their equivalent coursework that is applicable toward a degree or certificate offered by the school. Effective for awards of Title IV aid made on or after August 14, 2008.

*Audit:* A school-as-lender, a lender serving as a trustee for a school, or a school-affiliated organization participating as a FFELP lender must have an annual audit of its FFELP lending function. The audit must focus on ensuring that the entity's income is used to provide need-based grants and that only a reasonable portion of that income is used to satisfy administrative expenses. Effective for the first auditable period of the school-as-lender or eligible lender trustee that begins on or after August 14, 2008.

The Department waives the requirement for a financial audit for any foreign school whose enrolled students received less than $500,000 in FFELP loan funds for an award year during an applicable audit period. The waiver is effective for any financial statement audit that would otherwise be due on or after August 14, 2008.

*Child care provider loan forgiveness:* The program is removed from statute effective August 14, 2008.

*Claim filing requirements:* For a total and permanent disability claim, the lender must submit a Discharge Application: Total and Permanent Disability with Sections 1 and 3 completed by the borrower along with the documentation from the U.S. Department of Veterans Affairs (VA) showing that the VA has determined the borrower to be unemployable due to a service-connected condition. Effective for total and permanent disability – VA applications received by the lender on or after August 14, 2008.

*Cohort default rate:* The cohort default rate calculation period is extended through the end of the second fiscal year following the year in which the borrower entered repayment. Effective for cohort default rate calculations for fiscal year 2009 and after.

*Consolidation loans:* A joint (spousal) Consolidation loan cannot be reconsolidated under either the FFELP or the Federal Direct Loan Program (FDLP). A single Federal Consolidation loan may be reconsolidated under the FDLP without adding other eligible loans under certain situations. Effective for loan verification certificates received by the lender on or after August 14, 2008.

*Consumer reporting agency:* Upon successful rehabilitation of a loan, the guarantor and any other holder that reported the loan as in default, must request that the consumer reporting agency to which the default was reported remove the default record from the borrower's credit history.

*Credit bureau reporting:* The term credit bureau is changed to "consumer reporting agency" and there are new requirements that the lender report to all national consumer reporting agencies. The lender must report, in addition to data previously required, that the loan is an education loan. Effective for loans on which the lender reports credit transactions on or after August 14, 2008.

*Deferment:* The lender must use data on the National Student Loan Data System (NSLDS) at the request of the school to process a borrower's in-school deferment. Effective for in-school deferments granted by the lender on or after August 14, 2008.

When the lender grants certain deferments on an unsubsidized Stafford loan, it must provide to the borrower information regarding the impact of interest capitalization on the borrower's loan principal and the total amount of interest to be paid over the life of the loan. Effective for in-school, graduate fellowship, unemployment, military, and economic hardship deferments granted on unsubsidized Stafford loans on or after August 14, 2008.

*Disability discharge – total and permanent:* A borrower may be eligible for a total and permanent disability discharge if the borrower provides a Discharge Application: Total and Permanent Disability with Sections 1 and 3 completed, along with documentation from the U.S. Department of Veterans' Affairs (VA) that the VA has determined the borrower to be unemployable due to a service-connected condition.

A veteran may qualify for a FFELP loan discharge based on either of two criteria:

- A determination by the Department of Veterans Affairs (VA) that the veteran has a service-related disability or disabilities that are 100% disabling.
- An individual VA determination that the borrower is unemployable.

A borrower whose loan is discharged under these provisions is not placed into a conditional discharge status, but receives a final discharge of the loan obligation after the Department's review. These changes are effective August 14, 2008, for total and permanent disability loan discharge requests received on or after that date based on a VA determination.

If the guarantor determines, based on its review of the VA documentation, that the borrower is not eligible for discharge, the guarantor will return the loan discharge application and VA documentation to the lender with an explanation of the reason for the denial. If either the lender or the guarantor determines that the documentation from the VA does not indicate that the borrower is eligible for discharge, the lender must notify the borrower that the discharge request has been denied, provide the reason for the denial, and advise the borrower that collection activities will resume. The lender also must inform the borrower that he or she may reapply for a regular total and permanent disability discharge if the documentation from the VA indicates that the veteran may qualify under regular disability provisions. The lender may treat the loan as if it was in forbearance during the evaluation process, and capitalize the interest.

If the Department grants a final discharge based on a VA determination, it will notify the guarantor of the discharge. The guarantor will pay the disability claim and notify the lender. The lender will return any loan payments made on or after the effective date of the VA determination (that the borrower is unemployable due to a service-connected condition). The borrower is not subject to the 3-year conditional period or post-discharge monitoring period. Title IV loans received prior to the effective date of the VA determination, including the underlying loans in a Consolidation loan, are eligible for discharge, as well as Title IV loans received on or after the effective date of the VA determination.

To file a claim based on the borrower's eligibility for a Department of Veterans Affairs (VA)–determined total and permanent disability discharge, the lender must submit, along with standard claim file documentation, a Discharge Application: Total and Permanent Disability with Sections 1 and 3 completed and documentation from the VA showing that it has determined that the borrower is unemployable due to a service-connected condition. If the guarantor determines that there is insufficient evidence of the borrower's eligibility for a VA total and permanent disability discharge, the lender must notify the borrower that the discharge has been denied, provide the reason for

that denial, and advise the borrower that collection activities will resume. The lender may treat the loan as though it were in forbearance for the period during which the claim was being reviewed. If the loan is discharged based on the VA determination, the borrower is not subject to the post-discharge monitoring period.

Effective for total and permanent disability loan discharge requests received by the lender on or after August 14, 2008, that are based on VA determinations.

*Disclosure requirements:* The lender must include in the initial disclosure to the borrower additional data: that the borrower is receiving a loan that must be repaid; information regarding the option to pay accruing unsubsidized interest while in school; additional information regarding the borrower's option to defer the loan; information regarding the types of repayment options from which the borrower may select; information regarding the option to forbear the loan; information regarding the options for and requirements associated with loan forgiveness. The requirement that the lender include in the initial disclosure information regarding how the acceptance of the loan may affect the student's eligibility for additional financial assistance is removed. The lender may provide to a PLUS or unsubsidized Stafford loan borrower sample monthly payment amounts that assume different levels of borrowing rather than projected monthly payment amounts or information to assist the student in estimating those payment amounts. Initial disclosure requirements are effective August 14, 2008.

In addition, for loans first disbursed on or after August 14, 2008, the lender must disclose at or prior to the start of the borrower's repayment period each of the following: the servicer's name and the address to which correspondence and payments should be sent; the date any deferment is scheduled to end, if applicable; the estimated balance, including the estimated capitalized interest balance as of the date that the deferment period is scheduled to end, if applicable; information on any special repayment benefits that the lender offers; a description of the repayment plans available to the borrower and that the borrower may change repayment plans during the repayment period; the number, amount, and frequency of payments based on a standard repayment plan or the plan selected by the borrower; the amount of interest already paid, if applicable; information regarding the options to avoid or resolve a default; and additional resources of which the lender is aware that the borrower may use to receive advice and assistance with loan repayment.

For Consolidation loans, a lender must disclose to prospective Consolidation loan borrowers, in simple and understandable terms, the following information: whether a Consolidation loan would result in a loss of benefits under the FFELP, FDLP, or Federal Perkins Loan Program; available repayment plans; options to prepay; that benefit programs vary among lenders; the consequences of default; and that applying for a Consolidation loan does not obligate the borrower to take the loan. Effective for Consolidation loan applications provided to potential borrowers on or after August 14, 2008.

When a loan becomes 60 days past due, the lender must provide to the borrower the following additional information: the date on which the loan will default if no additional payments are made; the minimum payment that the borrower is required to make to avoid default; a description of the borrower's options to avoid default; loan discharge options; and additional resources of which the lender is aware that the borrower may use to receive advice and assistance with loan repayment.

*Disbursement rules:* The lender is no longer required to provide SSN(s) on an individual check. The lender need not include in the master check roster the SSN for the dependent student for a parent PLUS loan. Lenders are permitted to include either the student's SSN or other reliable identifying information. Effective for loan disbursement checks issued by the lender on or after July 1, 2009, unless implemented earlier by the lender or the guarantor.

A school may disburse a Stafford or PLUS loan in a single disbursement if the school has a cohort default rate of less than 10% for each of the three most recent fiscal years for which data are available, and any one of the following conditions applies:

- The loan is certified for a period of enrollment that is not more than one semester, trimester, or quarter.
- In a nonstandard term-based program with terms that are substantially equal and at least 9 weeks of instructional time in length (SE9W), the loan is certified for a period of enrollment that is not more than one nonstandard term. However, a school must schedule at least two disbursements of a loan made for a single, nonstandard term that is SE9W but that is more than 4 months in length.
- In a nonstandard term-based program with terms that are not SE9W — i.e., the terms are not substantially equal or each term is not at least 9 weeks of

instructional time in length — or in a non-term-based program, the loan is certified for a period of enrollment that is not more than 4 months.

A school that is otherwise exempt from the multiple disbursement requirement due to low cohort default rates must schedule at least two disbursements for a loan certified for a substantially equal, nonstandard term of at least 9 instructional weeks in length (SE9W) if the term is more than 4 months in length. Effective with the publication date of Volume 3 of the 09-10 FSA Handbook.

The multiple disbursement exemption applicable to a loan period that is no more than 4 months in length applies to a nonstandard term-based program or a non-term-based program. Effective with the publication date of Volume 3 of the 09-10 FSA Handbook.

*Distance Education:* Education that uses one or more technologies to deliver instruction to a student who is separated from the instructor and to support regular and substantive interaction between the student and the instructor, either simultaneously or at different times. Any of the following are permissible distance education technologies:

- The Internet.
- One-way and two-way transmissions through open broadcast, closed circuit, cable, microwave, broadband lines, fiber optics, satellite, or wireless communications devices.
- Audio conferencing.

Videocassettes, DVDs, and CD-ROMs may also be used in conjunction with any of the technologies listed above. Effective August 14, 2008.

*Eligibility – lender:* For a national or state-chartered bank, or a credit union with assets of less than $1 billion, FFELP loans may not represent more than 50% of the lender's consumer credit loan portfolio. Effective August 14, 2008.

For a school acting as a lender or for an eligible lender trustee, the required annual audit must be performed by a qualified independent organization or person. Effective for the first auditable period for the school as lender or eligible lender trustee that begins on or after August 14, 2008.

*Eligibility – school:* A school that is placed on limitation, suspension, termination, or emergency action is required to prepare a teach-out plan and provide that plan to its accrediting agency or association. Effective for limitation, suspension, termination, or emergency actions placed on a school on or after August 14, 2008.

A school must annually report to the Department the amount of any reasonable expenses that were paid or provided by a private education loan lender or group of lenders to an agent of the school with responsibilities for financial aid. The school must report all of the following:

- The amount for each specific instance of reasonable expenses paid or provided.
- The name of the agent with responsibilities for financial aid to whom the expenses were paid or provided.
- The dates of each activity for which the expenses were paid or provided.
- A brief description of each activity for which the expenses were paid or provided.

Effective for administrative capability standards on or after August 14, 2008.

*Entrance counseling:* A lender may provide in-person entrance counseling services to a school. The school's staff must be in control of the counseling, whether in person or via electronic capabilities. The counseling must not promote the products and services of any specific lender. Effective for entrance counseling provided by a lender on behalf of a school on or after August 14, 2008.

*Exit counseling:* A school must provide information about the terms and conditions of a Title IV loan (e.g. deferment, forbearance, and cancellation). The school must also provide information about forgiveness and discharge benefits available to a FFELP borrower who consolidates his or her loan(s) into the FDLP. Effective for exit counseling provided by the school on or after August 14, 2008.

*Forbearance:* The requirement to send a forbearance notification to the borrower during the forbearance period is revised from a 6-month frequency to a 180-day frequency. The lender must include additional information in the notice, including the amount of interest accrued since the last interest accrual information was provided to the borrower; the amount of interest that will be capitalized and when that will occur; and the option to pay the interest before it is capitalized. The previous exception for sending notices to borrowers during internship/residency

forbearance and mandatory forbearance are removed. Effective for forbearance granted by the lender on or after August 14, 2008.

*Inducements:* A lender is permitted to provide to a school technical assistance comparable to that provided to Direct Lending schools by the Department. Other permitted and prohibited activities are redefined and added to policy. Effective for lender activities on or after August 14, 2008.

*Interest rates:* A lender may not assess additional charges or fees to a borrower who is subject to the provisions of the SCRA (Servicemembers' Civil Relief Act), to compensate for the difference between the otherwise applicable interest rate and the reduced rate that the lender is permitted to charge. The endorser is considered to be eligible to request and receive the reduced interest rate if the endorser signed the PLUS MPN Endorser Addendum prior to the start of his or her qualifying military service. A Consolidation loan is considered to be "incurred" on the date that the Consolidation loan is made, not the date on which any underlying loan is made. Effective for loans for which the lender receives a servicemember's written request for the reduced interest rate that is effective on or after August 14, 2008, for periods of military service occurring on or after that date.

*Loan certification:* The school may certify unsubsidized Stafford loan funds for a dependent student whose parent(s) has ended financial support and refuses to complete the parental section of the FAFSA. Effective for loans certified by the school for loan periods that begin on or after August 14, 2008.

*Loan forgiveness for service in areas of national need:* A new type of loan forgiveness is added to statute but not funded. Effective August 14, 2008.

*Loan repayment for civil legal assistance attorneys:* A new type of loan repayment is added to statute but not funded. Effective August 14, 2008.

*Loan sales and transfers:* The notice that lenders or holders send to borrowers when a loan is assigned, sold, or transferred must also include the effective date of the transaction, the date on which the current holder will stop accepting payments on the loan, and the date on which the new holder will begin to accept payments on the loan. Effective for loans assigned, sold, or transferred on or after August 14, 2008.

*Notification – borrower and student:* The school must provide a new student with a notice that a conviction on a drug-related offense may result in a loss of eligibility for Title IV aid. The school also must provide a notice to a student who has been convicted of a drug-related offense while the student is in school and receiving Title IV aid. The school must notify the student that the drug-related conviction results in a loss of Title IV eligibility. The notice must provide the student with information regarding the ways in which the student may regain Title IV eligibility. For the notification at enrollment, the provision is effective for students who enroll at the school on or after August 14, 2008. For the notice upon loss of Title IV eligibility due to a drug-related conviction, the provision is effective for school determinations of the students loss of eligibility on or after August 14, 2008.

Other notices are added to the list of disclosures that the school is required to provide to a student, and some consumer information requirements are eliminated. Policy clarifies that foreign schools are not required to publish an annual security report. Effective August 14, 2008.

*PLUS credit check:* Extenuating circumstances for purposes of determining adverse credit are amended to provide, temporarily, that a PLUS applicant may be considered otherwise eligible if he or she has been 180 days or less delinquent on the repayment of mortgage loan payments or on medical bill payments for the applicant or the applicant's family. Effective for loans first disbursed on or after July 1, 2008, for extenuating circumstances existing between January 1, 2007, and December 31, 2009.

*Program participation agreement:* The school is not permitted to request or accept funds from a lender for private education loans, including opportunity pool loans, in exchange for FFELP loan volume or a preferred lender arrangement. The school must develop, publish, administer, and enforce a code of conduct that establishes specific parameters. Effective for a school participating in a Title IV loan program on or after August 14, 2008.

Also, the school is required to develop and implement written plans to effectively combat the unauthorized distribution of copyrighted material by users of the school's information technology network. Effective August 14, 2008, for:

- Developing plans to combat the unauthorized distribution of copyrighted material using a technology-based deterrent(s).

- Offering alternatives to illegal downloading or peer-to-peer distribution of intellectual property, to the extent practicable.

A school that is required to make a good faith effort to distribute a voter registration form to each enrolled student may comply with this requirement electronically. The school may also comply with this requirement by electronically transmitting to the student a message that is devoted exclusively to voter registration and contains either of the following:

- A voter registration form acceptable for use in the state in which the school is located.
- An Internet address where such a form can be downloaded.

Effective for voter registration information distributed by a school on or after August 14, 2008.

*Rehabilitation of defaulted loan:* Upon successful rehabilitation of a loan, the guarantor and any other holder that reported the loan as a default, must request that the consumer reporting agency to which the default was reported remove the default record from the borrower's credit history. The term "credit bureau" is revised to "consumer reporting agency." Effective August 14, 2008.

*Teacher loan forgiveness:* An otherwise eligible borrower may qualify for teacher loan forgiveness if the borrower has provided qualifying teaching service at one or more locations that are operated by an educational service agency but not a school, and that have been determined by the Department in consultation with the state, to be eligible locations for this purpose. The chief administrative officer of the educational service agency may certify a borrower's eligibility for loan forgiveness. Also, a borrower who receives benefits under the Teacher Loan Forgiveness Program may not receive, for the same teaching service, benefits under the Public Service Loan Forgiveness Program or the Loan Forgiveness Program for Service in Areas of National Need. Effective for Teacher Loan Forgiveness Applications and Teacher Loan Forgiveness Forbearance Request forms received by the lender on or after August 14, 2008.

#### October 1, 2008

*Consolidation loans:* A FFELP borrower may consolidate into the Federal Direct Loan Program (FDLP) for the purpose of using the no accrual of interest benefit for active duty servicemembers of the FDLP. Effective for Direct Consolidation loans disbursed on or after October 1, 2008, for purpose of using the no accrual of interest benefit for active duty servicemembers.

#### December 2008

The Department issues DCL GEN-08-12/FP-08-10 to summarize provisions and provide guidance on the Higher Education Opportunity Act of 2008 (HEOA).

## 2009

#### January 1, 2009

*Consolidation loans:* The subsidized, unsubsidized, and HEAL portions of a single Consolidation loan may appear as separate loan records on the lender's system, but the lender must ensure that the Consolidation loan is administered as a single Consolidation loan. If a lender fails to perform due diligence activities on a single payment due date and amount, the lender may incur due diligence violations and penalties sufficient to cause a loss of guarantee on the loan. Effective for claims filed by the lender on or after January 1, 2009, unless implemented earlier by the guarantor.

#### February 9, 2009

*Common forms:* The Department issues DCL FP-09-01 to introduce the revised Discharge Application: Total and Permanent Disability. Lenders may begin to use the revised application immediately but must supply the revised application to borrowers on or after July 1, 2009. Lenders may continue to accept the previous version of the discharge application completed by the borrower on or after July 1, 2009.

#### April 2, 2009

*Loan certification:* The Department publishes DCL GEN-09-04 to clarify permissible use of professional judgment, and to encourage financial aid administrators to consider special financial circumstances based on current economic trends.

#### April 3, 2009

*Consolidation loans:* The Department publishes DCL FP-09-03 to clarify that FFELP lenders must complete loan verification certificates (LVCs) for all borrowers who are applying for consolidation under the Federal Direct Loan Program (FDLP). The Department's guidance asserts that many borrowers who would otherwise be ineligible for a Federal Consolidation loan will be eligible for a Direct Consolidation loan in order to obtain the new loan forgiveness and no-interest accrual benefits available under the FDLP. The Department's guidance asserts that the new loan forgiveness and no-interest-accrual benefits mean that

many borrowers will be eligible for Direct Consolidation loans despite their apparent ineligibility from the FFELP perspective. Lenders still are permitted to refuse to certify a Direct loan LVC if the Consolidation loan that the borrower is choosing to reconsolidate is a spousal Consolidation loan.

**April 24, 2009**

*Common forms:* The Department issues DCL FP-09-04 to introduce updated Stafford and PLUS loan MPNs, the PLUS Loan Endorser Addendum, and school certification forms. Schools and lenders must begin to use the updated forms as soon as possible. Lenders must use the updated Stafford and PLUS addenda with existing paper and electronic versions of the MPNs, but the addenda will not be necessary for those borrowers who use the revised MPNs. The letter provides guidance on how the lender and/or school must provide updated loan terms and conditions to borrowers receiving subsequent Stafford or PLUS loans under previously signed MPNs and for current borrowers who are not receiving new loans but for whom some of the new terms and conditions are applicable. Program participants must implement the new forms no later than October 1, 2009.

**May 8, 2009**

*Loan certification:* The Department publishes DCL GEN-09-05 to advise school financial aid staff that it is explicitly permitting and encouraging schools to use a student's unemployment benefits letter as sufficient documentation of special circumstances, and that such a student has zero income for purposes of determining the appropriate budget numbers and thus, the appropriate levels of financial assistance. The letter specifies documentation requirements for such actions on the school's part.

**May 14, 2009**

*Audit:* The Department publishes DCL GEN-09-06 to announce the waiver of the financial audit requirement for any foreign school whose enrolled students received less than $500,000 in FFELP loan funds for an award year during an applicable audit period. The waiver is effective for any financial statement audit that would otherwise be due on or after August 14, 2008.

*Disability – total and permanent:* The Department publishes DCL GEN-09-07 to provide guidance on the total and permanent disability loan discharge provisions for veterans who have been determined "unemployable" due to a service-related condition or disability. The lender must cease collections activity when it receives the Discharge Application: Total and Permanent Disability from the borrower. The guidance in this letter is retroactively effective to August 14, 2008.

**June 1, 2009**

*Eligibility – borrower and student:* A U.S. passport card is an acceptable document to confirm a student's or borrower's citizenship, or to correct a date of birth or first name. Effective with the publication of the 09-10 FSA Handbook, Volume 1, for citizenship verification. Effective June 1, 2009, for correction of a first name change or date of birth.

**July 1, 2009**

*Consolidation loans:* A borrower with a defaulted loan may become eligible for a FFELP Consolidation loan if the borrower agrees to repay the consolidating lender under an income-based repayment schedule. Effective for consolidation requests received by the lender on or after July 1, 2009.

*Deferment:* Non-taxable income, defined by the IRS as child support, life insurance proceeds, and gifts and bequests, is not treated as income for purposes of determining eligibility for an economic hardship deferment. Effective for economic hardship deferment eligibility determinations made on or after July 1, 2009, unless implemented earlier by the guarantor.

Regulations add a definition for family size as the term pertains to the economic hardship deferment and delete the two eligibility criteria based on a federal debt-to-income ratio. Elimination of the debt-to-income criteria is effective for economic hardship deferments granted on or after July 1, 2009, that begin on or after July 1, 2009. The definition of family size is effective for economic hardship deferments granted on or after July 1, 2009.

A borrower no longer qualifies for an economic hardship deferment based solely on being unemployed, incarcerated, disabled, or on a temporary leave of absence from work, if the condition begins on or after July 1, 2009. If the borrower does not have an income when applying for an economic hardship deferment under item 3, despite working full time as required, the borrower must provide a self-certifying statement, either on the deferment form or in a separate statement indicating that he or she has no income. Deferment eligibility for a borrower not residing in a state identified in the poverty guidelines is based on the poverty guidelines for the 48 contiguous states, rather than the last

state in which the borrower resided. Effective for economic hardship deferments granted on or after July 1, 2009, that begin on or after July 1, 2009.

The military active duty student deferment is renamed a post-active duty student deferment. To be eligible for the post-active duty student deferment, a borrower's eligible military service must begin on or after October 1, 2007, or include that date. There is no limit to the number of post-active duty student deferments an eligible borrower may receive. Each individual deferment is limited to 13 months. Effective for post-active duty student deferment requests received on or after July 1, 2009, unless implemented earlier by the lender on after October 23, 2008.

A military service deferment may be granted without supporting documentation to an otherwise eligible borrower for a period not to exceed the initial 12 months from the date the qualifying eligible service began, based on a request from the borrower or the borrower's representative. Effective for military service deferment requests received by the lender on or after July 1, 2009, unless implemented earlier by the lender on or after October 23, 2008.

*Disability discharge (total and permanent):* For the purpose of receiving a new loan after a prior loan is discharged based on a determination of a borrower's total and permanent disability, a borrower must obtain the physician certification only once and the school should keep a copy of it in the student's file. However, the school must collect a new borrower acknowledgment statement from the borrower for each new loan he or she requests. Effective upon publication of the 09-10 FSA Handbook, Volume 1.

*Disbursement rules:* The lender is no longer required to provide SSN(s) on an individual check. The lender need not include in the master check roster the SSN for the dependent student for a parent PLUS loan. Lenders are permitted to include either the student's SSN or other reliable identifying information. Effective for loan disbursement checks issued by the lender on or after July 1, 2009, unless implemented earlier by the lender or the guarantor.

*Disclosure requirements:* A lender must provide disclosures during the repayment period to any borrower who notifies the lender that he or she is having difficulty making scheduled payments. Effective for required lender disclosures made for loans with first payments due on or after July 1, 2009.

The lender must disclose specific information to a borrower who is 60 days past due. Effective for loans that become delinquent on or after July 1, 2009.

*Eligibility – borrower and student:* A financial aid administrator (FAA) may make a dependency override for a student based on the documented dependency override for that same student made by another FAA at a prior school. The documented dependency override of the prior FAA must be within the same award year. If a school uses the documented dependency override of another school, it must retain the SAR/ISIR that was used as the basis for continuing the dependency override. Effective for dependency overrides made by the school on or after July 1, 2009.

The definition of an independent student is expanded to include a student who was in foster care; was an orphan, a ward, or a dependent of the court at any time when the student was 13 years of age or older; or was a student who was, immediately prior to attaining the age of majority, an emancipated minor or in a legal guardianship as determined by a court in the student's state of legal residence. A student also is considered independent if the student has been verified as an unaccompanied youth who is either homeless or at risk of being homeless and self-supporting. Although the specific HEOA changes are not effective until July 1, 2010, the Department has updated the 2009-2010 FAFSA to reflect the changes. Thus, the policy is implemented for dependency determinations beginning with the 2009-2010 award year.

*Estimated financial assistance:* All federal veterans' education benefits are excluded from estimated financial assistance (EFA) for determining eligibility for a Stafford or PLUS loan. Effective July 1, 2009.

*Forbearance:* A lender may grant an administrative forbearance to cover a period of delinquency that exists at the time a borrower chooses a different repayment plan. Effective for repayment plan changes granted by the lender on or after July 1, 2009.

A forbearance must be granted to a borrower who is a member of the National Guard if the borrower is serving on active military state duty and qualifies for the post-active duty student deferment, but does not qualify for the military service deferment or other deferment. This forbearance is granted in yearly increments (or for a lesser period of time that is equal to the period for which the borrower is eligible) while the eligible borrower is engaged in active state duty for a period of more than 30 consecutive days. Effective for

deferment requests received by a lender on or after July 1, 2009, unless implemented earlier by the lender on or after October 23, 2008.

*Repayment terms:* Income-based repayment (IBR) is implemented for borrowers in repayment on or after July 1, 2009. IBR policies include the following:

- Determination of partial financial hardship (PFH) for a borrower who requests to pay under the IBR plan.
- Calculation of a borrower's minimum monthly payment amount under the IBR plan.
- Recalculation of a borrower's monthly payment amount under the IBR-defined permanent-standard if the borrower ceases to have a PFH, chooses not to make PFH payments but remains under the IBR plan, or the borrower fails to renew consent for income verification.
- Recalculation of a borrower's monthly payment amount under the IBR-defined expedited-standard if the borrower ceases to pay under the IBR plan.
- Application of borrower payments and prepayments.
- Frequency of capitalization.
- Federal interest benefits and special allowance payments.
- Disclosure requirements for lenders.
- IBR and loan rehabilitation.
- Loan forgiveness.
- Administrative forbearance to collect and process documentation for forgiveness.
- Permissible income documentation for use in determining if a PFH exists.

The provisions of the IBR plan are effective July 1, 2009. IBR loan forgiveness may not occur prior to July 1, 2034.

*Rehabilitation of a defaulted loan:* The lender must permit a borrower to choose any repayment plan available for the loan type being rehabilitated. The lender is no longer required to ensure that the repayment schedule has initial payments that are equal to or greater than the monthly payments that the borrower made to accomplish the rehabilitation. Effective for rehabilitated loans purchased by the lender on or after July 1, 2009.

### July 30, 2009

*Common forms:* The Department issues DCL FP-09-06 to introduce updated deferment forms that include changes in terms and conditions from the Higher Education Opportunity Act of 2008 (HEOA) and final regulations published in October 2008. Lenders are permitted to begin using the new forms immediately but must implement the forms not later than January 1, 2010.

### August 19, 2009

The Department publishes an electronic announcement to clarify the applicability of certain veterans' educational benefits to the calculation of a student's estimated financial assistance (EFA), emphasizing that only those veterans' educational benefits that are included in HEA §480(c) are excluded from the school's calculation of the student's EFA.

### August 28, 2009

*Disability discharge (total and permanent):* A borrower whose prior Title IV loan(s) is conditionally discharged due to an initial determination that the borrower is totally and permanently disabled must submit a request to the Department's Conditional Discharge Disability Unit requesting that the was conditionally discharged loan(s) be returned to repayment, and also must advise the school that the process of returning the conditionally discharged loan to repayment has been initiated. Effective for new loan requests received by a school on or after August 28, 2009.

*Loan certification:* Before a school may certify a new loan for a borrower whose prior Title IV loan(s) is conditionally discharged due to an initial determination that the borrower is totally and permanently disabled, the school must confirm that the borrower has initiated the process to return the conditionally discharged loan(s) to repayment. The school also must determine whether the status of the loan (default or non-default) will trigger additional requirements before it certifies a new loan for the borrower. A school must not deliver any new loan funds until it confirms that the conditionally discharged loan(s) has been returned to repayment. Effective for new loan requests received by a school on or after August 28, 2009.

**September 4–8, 2009**

*Return of Title IV funds:* The Department publishes DCL GEN-09-11 to clarify the applicability of rules related to minor prior-year charges. The letter clarifies that for FFELP purposes, the prior "year" is the prior loan period. If the student's aid does not include a FFELP loan, the prior "year" is the award year. Title IV aid applied to prior-year charges is not included as aid disbursed for purposes of the return of Title IV funds calculation.

For the purpose of determining whether a school may pay minor, prior-year charges with Title IV funds from the current year, the cost of education and other services a school provides to a student are associated with the "year" for which they are provided. If a student's aid package includes a FFELP or Direct loan, the "year" is the loan period. "Current-year" charges are charges for tuition, fees, room and board, and other educationally related activities that the school assessed for the current loan period. "Prior-year" charges are those charges assessed for any loan period that precedes the current loan period. If the student does not have a FFELP or Direct loan, the "year" is the award year, and cost for the current year are defined as charges for education and services provided during the current award year.

If a school charges, at the beginning of a program, the total cost of a program that is more than the current loan period or award year, as appropriate, the school must apportion the program's total charges to each applicable "year". Institutional charges allocated to each year or portion of a year would be based on the education and services the school provides to the student during the period of time associated with each year or portion of a year. This apportionment determines the amount of charges applicable to the current and prior years. Charges for books, equipment, supplies, or other materials could be allocated on a pro rata basis, or, alternatively, could be allocated to the period in which the school requires the student to purchase them. The school must also use the portion of the program's total charges that it allocates to each "year" for the purpose of determining whether the student has a credit balance of Title IV funds.

The allocation of charges for the purposes of paying minor, prior-year charges and determining when a credit balance has been created on the student's account does not modify the calculation of cost of attendance for determining a student's financial aid package, nor does it modify the return of Title IV funds calculation. Effective for prior-year charges paid by a school with current-year funds on or after September 8, 2009.

**September 29, 2009**

*Delivering loan funds:* For programs offered in modules (either standard term-based, credit-hour programs or nonstandard term-based, credit hour programs in which all of the terms are at least 9 weeks of instructional time and substantially equal in length) if the loan period for a Stafford or PLUS loan consists of one payment period and does not qualify for a multiple disbursement exemption (see Subsection 6.4.A), the school must deliver the second disbursement no earlier than the later of the calendar midpoint between the first and last scheduled days of class of the loan period, or the first day of the first subsequent module in the payment period that the student will actually attend. Effective for the delivery of the second disbursement of a Stafford or PLUS loan certified for a single term of a standard term-based program, modular program, or a modular program with nonstandard terms that are SE9W on or after September 29, 2009, unless implemented earlier by the school.

**October 28, 2009**

*Cohort default rate:* Historically black colleges and universities (HBCUs) and tribally controlled and Navajo community colleges, may no longer qualify for an exemption from the loss of FFELP, FDLP, or Federal Pell Grant Program eligibility based on cohort default rates in excess of applicable thresholds. Effective October 28, 2009, for official fiscal year 2003 cohort default rates.

## 2010

**January 1, 2010**

*Claim filing requirements:* The lender must submit the federally approved forms to accompany the common Claim Form and must provide any additional information with the claim to substantiate the assertion that the borrower was ineligible for the loan funds or that the loan is eligible for discharge due to false certification due to the crime of identity theft. Effective for claims filed by the lender on or after January 1, 2010, unless implemented earlier by the lender.

The lender must provide additional information in the claim file regarding any applicable electronic signature process and disbursement information when filing a total and permanent disability claim that is not based on a determination by the Department of Veterans Affairs (VA). The required information must be submitted via the FFELP Assignment Support Supplemental Form (TPD-specific worksheet). Effective for total and permanent disability

claims that are not based on a VA determination and that are filed by the lender on or after January 1, 2010, unless implemented earlier by the guarantor.

The lender must provide to the guarantor documentation to support the granting of a reduced interest rate under the Servicemembers' Civil Relief Act if, at the time the lender files a claim with the guarantor, the borrower, comaker, or endorser is receiving this benefit. This documentation includes the borrower's written request for the reduced interest rate and applicable military orders. Effective for claims filed by the lender on or after January 1, 2010.

**February 14, 2010**

The Department issues DCL GEN-10-01, which introduces the Private Education Loan Applicant Self-Certification Form for immediate implementation. A school must provide the form and requested information (COA, EFA, and the difference between the two) to any student who requests it, to the extent that the school has such information.

**March 24, 2010**

The Department issues DCL GEN-10-03/FP-10-01, which introduces revised versions of several loan discharge applications: Closed School, False Certification (Ability to Benefit, Disqualifying Status, Unauthorized Signature/ Unauthorized Payment), and Unpaid Refund. Program participants may begin to use the new forms immediately but must use the new forms no later than July 1, 2010.

**March 30, 2010**

President Obama signs the Health Care and Education Reconciliation Act (HCERA) (P.L. 111-152), ending new loan originations under the FFELP, effective for loans that would be first disbursed on or after July 1, 2010.

**April 2, 2010**

The Department publishes DCL GEN-10-05, to explain the Pell grant provisions of the Health Care and Education Reconciliation Act (HCERA) (P.L. 111-152) and the provisions that eliminate new loan originations under the FFELP effective July 1, 2010.

**May 14, 2010**

*Teacher loan forgiveness:* In the case of a borrower with an outstanding balance on a FFELP or FDLP loan on October 1, 1998, the borrower must pay the loan in full or obtain a full loan discharge in order to qualify for teacher loan forgiveness on a subsequent loan(s) that the borrower obtains after October 1, 1998. In addition, if a borrower obtains a FFELP or FDLP loan(s) after October 1, 1998, while an outstanding balance remains on a loan the borrower obtained on or before October 1, 1998, the borrower must pay in full or obtain a full loan discharge on *all* of the borrower's outstanding loans in order to qualify for teacher loan forgiveness on any subsequent loan(s). For this purpose, paid in full does not include paid in full through consolidation. Effective for teacher loan forgiveness applications or teacher loan forgiveness forbearance requests received by a lender on or after May 14, 2010, for new borrowers after October 1, 1998, unless implemented earlier by the guarantor or lender.

**June 4, 2010**

*Citizenship:* The Department publishes DCL GEN-10-07, which provides information regarding how an immigrant who is categorized as a "Battered Immigrant-Qualified Alien" can qualify for Title IV assistance.

**June 16, 2010**

The Department publishes DCL GEN-10-10/FP-10-02, which provides question-and-answer guidance regarding loan origination, cancellation, reallocation, disbursement reissues, and other transition issues related to the cessation of originations under the FFELP.

**June 17, 2010**

*Forms:* The Department publishes DCL GEN-10-11/FP-10-03, which introduces an updated Income-Based Repayment Plan Request and Alternative Documentation of Income Forms for loans made under the FFELP. Loan holders may begin using the new forms immediately but must distribute them to borrowers applying for IBR not later than September 1, 2010.

**June 29, 2010**

*Consolidation:* The Department publishes DCL GEN-10-13/FP-10-04, which provides information regarding the temporary in-school loan consolidation option for borrowers to consolidate qualifying loans between July 1, 2010, and June 30, 2011, inclusive. Borrowers may consolidate loans that are in an in-school status if they have at least one loan in at least two of the following categories:

- FFELP loans held by a FFELP loan holder
- FFELP loans PUT to the Department
- FDLP loans serviced by a loan servicer under contract with the Department.

**July 1, 2010**

*Deferment:* A lender must, unless otherwise notified by the borrower, defer the borrower's Grad PLUS loan, that was first disbursed on or after July 1, 2008, during any 6-month period beginning on the day after the Grad PLUS borrower ceases to be enrolled at least half time at an eligible school. Grad PLUS loan post-enrollment deferments granted on or after July 1, 2010.

*Disability discharge (total and permanent):* If, after the 3-year post-discharge monitoring period (applicable to a borrower's total and permanent disability discharge request) ends, the borrower requests a new loan, the borrower must obtain a physician's certification only once and the school should retain that document for future loan certification purposes. The school must collect a new borrower acknowledgment each time the borrower requests a new loan.

If, after the 3-year post-discharge monitoring period ends, and a borrower's TEACH grant service obligation was discharged, the borrower must acknowledge that he or she is once again subject to the terms of the TEACH grant agreement to regain eligibility for additional Title IV assistance.

Effective upon publication of the 09-10 FSA Handbook, Volume 1, for the purpose of determining the borrower's eligibility for a new federal student loan.

Under regular total and permanent disability discharge provisions, a borrower whose prior loan was granted a final discharge and placed in a 3-year post-discharge monitoring period must meet the same requirements as a borrower whose loan was placed in a 3-year conditional period. However, under total and permanent disability discharge provisions regarding Department of Veterans Affairs (VA) determinations, loans are not placed in either a 3-year conditional discharge or a post-discharge monitoring period. Effective for total and permanent disability loan discharge applications received on or after July 1, 2010.

The guarantor will review and approve or reject the discharge application within 45 days of its receipt of the lender's claim package. Effective for Total and Permanent Disability - VA applications received by the lender on or after July 1, 2010, for the change in the guarantor's timeframe for claim processing.

A borrower, comaker, or endorser is considered totally and permanently disabled if he or she is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death; has lasted for a continuous period of not less than 60 months; or can be expected to last for a continuous period of not less than 60 months. If the Department makes a determination that the borrower, comaker, or endorser is totally and permanently disabled, the loan(s) is discharged and the borrower, comaker, or endorser is placed in a 3-year post-discharge monitoring period that will last for 3 years after the date the Department grants the discharge.

If a borrower, comaker, or endorser received a TEACH grant or Title IV loan prior to the date the physician certified the borrower's discharge application and a disbursement of that loan or grant is made during the period from the date of the physician's certification until the date the Department grants a discharge, the processing of the borrower's loan discharge request will be suspended until the borrower ensures that the full amount of the disbursement has been returned to the loan holder or to the Department, as applicable. Effective for regular total and permanent disability discharge applications received by the lender on or after July 1, 2010.

The Department will refund payments received on an account after the date of the physician's certification on the loan discharge application. For an account in the three-year conditional discharge period, any payments to be refunded will be returned to the borrower at the end of that three-year period. However, under the most recent final rule changes, any payments to be refunded will be returned to the borrower when the Department approves the discharge of the loan(s) if all of the following criteria are met:

- The discharge application was received by the loan holder on or after July 1, 2010.
- The account is placed into a post-discharge monitoring period.

Effective for total and permanent disability discharge applications received by the loan holder on or after July 1, 2010.

*Disclosure requirements:* The 30-day payment due date extension to comply with the repayment disclosure requirement is applicable to PLUS loans. Effective for PLUS loans that enter or reenter repayment on or after July 1, 2010.

*Disclosure requirements – lender:* The monthly bill or statement that the lender is required to provide to the borrower includes several data elements, which are clarified as follows:

- The total amount of interest paid on the loan provided to a borrower must be since the last bill or statement.

- The aggregate amounts provided to a borrower identifying the interest and fees paid on the loan and the amount paid against the balance must all be disclosed separately. The aggregate balance provided to the borrower must be the principal balance.

- A lender's or loan servicer's address and toll-free phone number must also be provided to a borrower for repayment options.

These disclosures may be provided to a borrower based on the lender's or loan servicer's current system methodology and, therefore, may be disclosed at the loan, account, or borrower level. Effective for loans with first payments due on or after July 1, 2010.

When disclosing the potential loss of loan benefits to a prospective Consolidation loan borrower, the lender must include such benefits as loan forgiveness, cancellation, deferment, and a reduced interest rate. The lender must disclose to a borrower the process and deadline for canceling a Consolidation loan. After receiving all information necessary to make a Consolidation loan and prior to making any payments to the holder(s) of the underlying loans, the lender must notify the borrower of his or her option to cancel the Consolidation loan and permit the borrower at least 10 days from the borrower's receipt of that notice to cancel the loan. Effective for Consolidation Loan applications distributed on or after July 1, 2010.

When a lender provides the 60-day delinquency disclosure to a borrower, the following clarifications apply:

- The minimum payment to avoid default disclosed to a borrower must be as of the date of the lender's notice, and must include the payment amount needed either to bring the loan current or to pay the loan in full.

- A lender must provide resources of which it is aware through which the borrower may receive *additional* advice and assistance on loan repayment.

In addition a lender must send this disclosure notice to a borrower within five days of the date the borrower becomes 60 days delinquent, unless the lender has sent a similar notice to that borrower within the preceding 120 days. Effective for loans that become delinquent on or after July 1, 2010.

A lender must disclose to a borrower that he or she is permitted to change his or her repayment plan selection at least annually. Policy also clarifies the time frame for a lender to provide the repayment disclosure to a PLUS borrower whose loan enters immediate deferment. Effective for disclosures provided on or after July 1, 2010.

A lender must provide a borrower an explanation of the possible effects of accepting a loan on the student's eligibility for other forms of financial aid. Effective for initial disclosure information provided on or after July 1, 2010.

A lender is not required to send certain otherwise required disclosures when the lender does not have a valid address for the borrower. However, if the lender receives the borrower's valid address before the borrower's loan becomes 241 days delinquent, the lender must resume sending the required monthly installment bill or statement, as well as any other disclosure information not previously provided. Effective for invalid borrower address identified by a lender on or after July 1, 2010.

A lender must provide general information, along with an example, to an unsubsidized Stafford or PLUS borrower to assist the borrower in understanding the impact of capitalized interest. When granting a deferment, the lender must notify the borrower of the option to pay the accruing interest or cancel the deferment and continue to make monthly payments on the loan. Effective for deferments granted on or after July 1, 2010.

*Disclosure requirements – school:* New student consumer information disclosures must describe the terms and conditions of Title IV loans that are available to a student who enrolls at the school. Effective for student consumer information disclosures provided by the school on or after July 1, 2010.

A school must make available to enrolled and prospective students through appropriate publications, mailings, or electronic media, information about the school and financial aid available to students attending the school. A school must annually provide a currently enrolled student with a direct notice of the availability of the information that must be disclosed, briefly describe it, and advise the student how to obtain the information. Effective for student consumer information disclosures made available by a school on or after July 1, 2010.

By October 1 of each year, a school that provides on-campus student housing facilities must distribute to all of its enrolled students and current employees a fire safety report. For policies and procedures, effective for the fire safety report that a school must distribute by October 1, 2010. If

the fire safety report is included in the annual security report, effective for the annual security report that a school must distribute by October 1, 2010.

A school that provides on-campus housing facilities must include in its annual security report a statement of policy regarding missing student notification procedures for students who reside in an on-campus housing facility.

A school also must include in its annual security report a statement of policy regarding its emergency response and evacuation procedures. This policy must, at a minimum, include the procedures the school uses to immediately notify the campus community upon confirmation of a significant emergency or dangerous situation that is occurring on campus and involves an immediate threat to the health or safety of students or employees. For the emergency evacuation and response policies and procedures, effective for the annual security report that a school must distribute by October 1, 2010.

*Eligibility – borrower:* Rules related to the borrower reaffirming a debt that was previously written off are changed. "Attorney fees" are added to the list of charges that may be reaffirmed if the borrower's loan is written off and the borrower is reaffirming that debt.

Discharge applications received by the holder on or after July 1, 2010.

*Eligibility – school:* A school that conducts a teach-out may establish a permanent additional location at a closed school if the Department took a limitation, suspension, and termination (LS&T), or emergency action against the school before or after its closing. Effective July 1, 2010, unless implemented earlier by the school on or after November 1, 2009.

A proprietary school's certification becomes provisional at the start of a fiscal year after the school fails to satisfy the 90/10 rule for the preceding fiscal year. The school's provisional certification ends on the expiration date of the school's Program Participation Agreement or the date that the school loses its eligibility to participate in Title IV programs because the school failed to satisfy the 90/10 rule for two consecutive fiscal years. The school must report its failure to comply with the 90/10 rule within 45 days after the end of that fiscal year. Effective July 1, 2010.

*Entrance counseling:* Permissible entrance counseling delivery methods include both online and interactive electronic means, and encourages the use of methods that test the borrowers' understanding of the terms and conditions of his or her loans. Effective for entrance counseling provided by the school on or after July 1, 2010, unless implemented earlier by the school.

*Exit counseling:* A school must expand its exit counseling materials to ensure that it includes all of the following information:

- The terms and conditions of a Title IV loan (e.g., deferment, forbearance, and cancellation).
- The forgiveness and discharge benefits available to a FFELP borrower who consolidates his or her loan into the FDLP.

These provisions are effective for exit counseling provided by the school on or after August 14, 2008, for:

- The terms and conditions of a Title IV loan (e.g., deferment, forbearance, and cancellation).
- The forgiveness and discharge benefits available to a FFELP borrower who consolidates his or her loan(s) into the FDLP.

A school must expand its exit counseling materials to ensure that it includes information stating that the borrower must repay the loan even if he or she does not complete the program within the regular time frame for program completion.

Effective for exit counseling provided by the school on or after July 1, 2010.

*Forbearance:* For forbearance notices to borrowers, the calculation of the projected capitalized interest must be based on the loan information at the time that the notice is sent. Effective for forbearance notices provided by the lender on or after July 1, 2010.

*Interest payment and capitalization:* A lender may capitalize interest that accrues on a PLUS loan from the date of the first disbursement to the date that repayment begins. Effective July 1, 2010, unless implemented earlier by the lender.

*Loan sales and transfers:* Lenders must send notices related to loan sales and assignments only when there is an actual change of an ownership interest. Effective for transfers of ownership and assignments on or after July 1, 2010.

*Preferred lender arrangement:* A preferred lender arrangement is an agreement between a lender and a school or an institution-affiliated organization under which a

lender issues loans to a student or a student's family and the school or institution-affiliated organization recommends, promotes, or endorses the lender's loans. A preferred lender arrangement does not include:

- Arrangements or agreements with respect to loans made under the Federal Direct Loan Program.

- A private education loan made by a school or institution-affiliated organization to a student attending the school, provided the loan meets any one of several conditions.

A school or an institution-affiliated organization that participates in a preferred lender arrangement must disclose on its Web site and in all publications, mailings, or electronic messages or materials that describe or discuss education loans, including a list of preferred lenders (see below), certain prescribed data.

For any year in which a school has a preferred lender arrangement, the school must compile, maintain, and make available to a student and their his or her family parents a list of lenders that the school recommends, promotes, or endorses. If a school chooses to provide such a list, the list must:

- Not be used to deny or otherwise impede a borrower's choice of lender.

- If the school participates in a preferred lender arrangement for private education loans, the list must include at least two unaffiliated private education lenders. If any listed lender is an affiliate of any other listed lender, the school must provide the details of the affiliation. The lender affiliation provision does not include entities that are involved in post-disbursement activities, which a school has no ability to monitor or control.

Effective July 1, 2010.

*Private education loans:* A school must provide information about a private education loan available to a student who is a private education loan applicant:

- As a condition of a school's Program Participation Agreement, a school must provide to an enrolled or admitted student, or to the parent of an enrolled or admitted student, upon request, the Private Education Loan Applicant Self-Certification form and the information required to complete the form. Upon the request of the student or parent, the school must also discuss information about federal, state, and institutional financial aid.

- A school that provides information regarding a private education loan from a lender to a prospective borrower must provide information the Federal Reserve System requires to be disclosed under the Truth in Lending Act (TILA), a statement that the prospective borrower may qualify for Title IV loans and/or grant funds, and a statement that the terms and conditions of a Title IV loan may be more favorable than the provisions of a private education loan.

Effective for private education loan information provided by a school on or after July 1, 2010.

Effective for borrower requests for private education loan eligibility information received by a school on or after February 14, 2010.

A school must report annually to the Department the amount of reasonable expenses paid or provided by a private education loan lender or group of lenders, the name of the school agent who received the reimbursement, a brief description of each activity for which reimbursement was paid or provided, and the date that activity occurred. Effective August 14, 2008 for administrative capability standards.

*Program Participation Agreement:* Federal regulations incorporate into the Program Participation Agreement, each of the following:

- The school must, to the extent practicable, do all of the following:

  - Offer alternatives to the illegal downloading or other acquisition of copyrighted materials.
  - Periodically review the legal alternatives the school offers.
  - Make the results of the school's review of its legal alternatives available to students through posting on a Website or by other means.

Effective July 1, 2010.

- A school must prepare and submit a teach-out plan to its accrediting agency or association if any of the following occurs:

  - The Department initiates a limitation, suspension, termination, or emergency action (see Section 18.1).

- The school's accrediting agency acts to withdraw, terminate, or suspend the accreditation or preaccreditation of the school.
- The school's state licensing or authorizing agency revokes the school's license or legal authorization to provide an educational program.
- The school intends to close a location that provides 100% of at least one program.
- The school otherwise intends to cease operations.

Effective July 1, 2010.

*All* Title IV participating schools must develop, publish, administer, and enforce a code of conduct, not only those schools that have a preferred lender arrangement. The code of conduct must also prohibit conflicts of interest with regard to interaction between FFELP and private education loans and lenders. Effective July 1, 2010.

*Rehabilitation of defaulted loan:* A defaulted Consolidation loan that includes a loan previously rehabilitated on or after August 14, 2008, is eligible for rehabilitation because the Consolidation loan is a new loan. Also, within 30 days of receiving notification of the rehabilitation from the guarantor, the prior holder of the loan must request that any nationwide consumer reporting agency to which the default status or other equivalent record was reported, remove the default status or other equivalent record from the borrower's credit history. The notification time frame aspect of this policy is effective for rehabilitation notifications received by the prior holder on or after July 1, 2010.

A lender may grant an administrative forbearance for the purpose of aligning repayment for a borrower who has a PLUS loan(s) first disbursed prior to July 1, 2008; and a PLUS loan(s) first disbursed on or after July 1, 2008, or a Stafford loan(s) that is eligible for a grace period. When granting this type of administrative forbearance, the lender must notify the borrower that the forbearance has been granted and inform the borrower of the option to cancel the forbearance. Effective for an administrative forbearance granted on or after July 1, 2010, unless implemented earlier by the lender.

*Reinstatement of Title IV eligibility:* A student may regain Title IV eligibility after a drug-related conviction for an offense that occurred while he or she was enrolled in school and receiving Title IV aid by successfully passing two unannounced drug tests conducted by an approved drug rehabilitation program. A student may regain eligibility for Title IV aid on the date that the student successfully completes an approved drug rehabilitation program or on the date the student successfully passes two unannounced drug tests conducted by an approved drug rehabilitation program. In this case, the student may regain eligibility prior to actually completing the rehabilitation program. Effective for reinstatement of Title IV eligibility on or after July 1, 2010.

*Repayment terms:* The definition of partial financial hardship (PFH) is revised to specify that the lender must use the *greater* of the amount owed on the eligible loans when the borrower initially entered repayment or the amount owed when the borrower selects the IBR plan for determining whether a borrower has PFH. Also, when calculating PFH for a borrower who files a joint tax return and the borrower's spouse also has eligible loans, the lender must determine each borrower's percentage of the couple's total eligible loan debt. Effective for IBR plan requests or renewals processed by the lender on or after July 1, 2010.

*Teacher loan forgiveness:* An eligible borrower who performed some or all of his or her qualifying teaching service at an eligible educational service agency may qualify for teacher loan forgiveness only if the 5 years of qualifying teaching service include service that was performed at an eligible educational service agency performed after the 2007-2008 academic year. Effective for teacher loan forgiveness applications received on or after July 1, 2010.

### July 7, 2010

The Department publishes in the *Federal Register* requirements related to the implementation of the Civil Legal Assistance Attorney Student Loan Repayment Program for Title IV borrowers. Applications for the special repayment plan must be received by the Department not later than August 16, 2010. An eligible borrower may receive up to $6,000 in loan repayment per year for an aggregate of no more than $40,000 in loan repayment. The borrower must be employed on a full-time basis as a civil legal assistance attorney with either of the following organizations:

- A non-profit entity that provides legal assistance, at no cost, to low-income clients.

- A protection and advocacy system or client assistance program that provides legal assistance on civil matters to clients and that receives funding under specific federal programs.

Repayments are subject to funding and a borrower will not be reimbursed for payments already made on his or her loan(s).

*Loan repayment for civil legal assistance attorneys:* Congress appropriated funds for this program for fiscal year 2010 through the Consolidated Appropriations Act of 2010 (P.L.111-117). The Civil Legal Assistance Attorneys Student Loan Repayment Program is intended to encourage a qualified individual to enter and continue employment as a civil legal assistance attorney. The Department will repay portions of a qualifying student loan on behalf of the borrower. Receipt of a benefit under this program does not entitle the borrower to a refund of payments made on the loan.

To request loan repayment, a borrower must complete the Civil Legal Assistance Attorney Student Loan Repayment Program Application to Participate and Service Agreement form and submit it to the Department. The service agreement will include, at a minimum, each of the following requirements:

- The borrower will remain employed full time as a civil legal assistance attorney for at least 3 years, unless involuntarily separated from that employment.

- If the borrower is involuntarily separated from employment because of misconduct, or voluntarily separates from employment before the end of the required 3-year service period, the borrower will repay the Department the amount of any benefits the borrower has received under the service agreement.

- If the borrower fails to submit a certification of completed service within 90 days of the end date of the second or subsequent consecutive 12-month service period required to retain the repayment benefit, the Department notifies the borrower that the borrower must repay any benefit received under the Service Agreement unless the borrower provides the Department, within 30 days of the date of the Department's notice, with documentation that establishes to the satisfaction of the Department that such repayment should not be required.

- If the borrower is required to repay an amount to the Department and fails to repay the amount, the Department or another agency may recover the sum according to methods that are provided by law for the recovery of amounts owed to the federal government.

- The Department may waive portions of the required recoverable amount if it is shown that the recovery of the amount would be contrary to the public interest.

- The Department will make student loan payments on the qualifying loan(s) for the period of the service agreement, subject to the availability of appropriations.

The Department will send any approved payment amount first to the holder of the borrower's current highest outstanding unsubsidized loan. If the borrower has no outstanding unsubsidized loans, the approved payment amount will be sent to the holder of the borrower's highest outstanding subsidized loan. If the holder of the borrower's loan(s) determines that the repayment amount received from the Department exceeds the remaining balance of the loan for which it is designated in accordance with the preceding paragraph, the holder must apply the remaining balance to another eligible loan of the borrower held by the holder, if applicable. If the holder has no other eligible loans of the borrower, the holder must return the balance to the Department. If applicable, the Department will forward that balance to another holder of the borrower's eligible loans.

### August 16, 2010

The Department publishes DCL GEN-10-15/FP-10-05, which provides guidance regarding the implementation of revised Discharge Application: Total and Permanent Disability. Program participants may begin to distribute the revised form immediately, and must distribute only the revised form on or after November 1, 2010. Loan holders may not accept the previous version of the form after January 31, 2011.

### October 1, 2010

*Disability discharge (total and permanent):* If a loan was paid in full through involuntary payment within 30 days of a guarantor's receipt of a total and permanent disability discharge application, the guarantor may assign the loan to the Department, but the guarantor must notify the current Total and Permanent Disability Servicer before assigning the loan with a zero dollar ($0.00) balance. Effective for total and permanent disability loan discharge applications received on or after October 1, 2010.

## 2011

### March 17, 2011

The Department publishes DCL GEN-11-05 to provide guidance on three areas of the final regulations published on October 29, 2010, addressing program integrity issues: state authorization, incentive compensation, and misrepresentation.

### March 18, 2011

The Department publishes DCL GEN-11-06 to provide guidance to institutions and accrediting agencies regarding a "credit hour" as defined in the final regulations published on October 29, 2010.

### March 25, 2011

The Department publishes DCL GEN-11-08 to provide guidance for institutions utilizing ability-to-benefit testing under current and new regulations for students for whom English is not their native language, and who are enrolled in a program taught in their native language.

### March 29, 2011

The Department publishes DCL GEN-11-09 authorizing institutions to rely on information provided in DCL GEN-10-16 in cases where a student who was enrolled in a study-abroad program located in Japan was impacted by the recent earthquake and related events.

### April 20, 2011

The Department publishes DCL GEN-11-10 to provide guidance on new requirements for institutions that offer educational programs that prepare students for gainful employment in a recognized occupation.

The Department published DCL GEN-11-11 to provide guidance on state authorization in the context of distance learning under the program integrity regulations.

### June 7, 2011

The Department published DCL GEN-11-12 which describes federal student aid eligibility for students enrolled for a trial period that leads to enrollment as a regular student.

### July 1, 2011

*Authorizations and certifications:* When a school is providing a method for Pell grant-eligible students to obtain necessary books and supplies by the seventh day of classes, the Department considers that a student authorizes the use of Title IV aid at the time the student uses the method provided by the school. In this situation, the school need not collect an additional authorization from the student.

Effective for Title IV credit balances to Pell-grant eligible students for necessary books and supplies for the payment period for periods beginning on or after July 1, 2011.

*Credit balances:* A school is required to provide Pell grant-eligible students with a method to obtain or purchase necessary books and supplies. The school must provide the necessary funds or access to the necessary books and supplies no later than the seventh day of the payment period. A student who is eligible for Pell grant funds is eligible for the necessary books and supplies disbursement if the school could disburse funds 10 days prior to the payment period for that student and, if those funds were disbursed, they would create a credit balance.

A school must have an "opt out" policy for its students. If the student chooses to opt out of the school's method, the school may offer another method to the student.

When two eligible schools have a consortium agreement, the payment period of the school that pays the funds dictates the timing of the student's ability to obtain the necessary books and supplies. If the "home" school pays the funds, then the student must be able to purchase the necessary books and supplies by the seventh day of the payment period of the home school; if the "host" school pays the funds, then the student must be able to purchase the necessary books and supplies by the seventh day of the payment period at the host school.

Effective for Title IV credit balances to Pell-grant-eligible students for necessary books and supplies for the payment period for periods beginning on or after July 1, 2011.

*Delivering loan funds:* If a student withdraws from a term-based credit-hour program offered in modules during a payment period or, as applicable, period of enrollment, and then resumes enrollment in the same program before the end of the period, the school must determine the student's eligibility to receive funds for which he or she was eligible prior to the withdrawal. This includes funds that were previously returned by the school or the student as the result of the return of Title IV funds calculation. The student remains eligible for the funds based on his or her enrollment status at the time of reentry into the program and

the student's cost of attendance, taking into account any reduction in the cost of attendance caused by the period of nonattendance. Effective for withdrawal from a term-based credit-hour program offered in modules on or after July 1, 2011.

*Disclosure requirements – school:* A school must provide certain disclosures to prospective and current students enrolled in a program that prepares students for gainful employment in a recognized occupation.

For each program, the school must include the disclosures in promotional materials it makes available to prospective students and post this information on its Web-site. The school must prominently provide the information in a simple and meaningful manner on the home page of its program Web-site, and provide a prominent and direct link on any other Web page containing general, academic, or admissions information about the program, to the single Web page that contains all the required information.

Effective for gainful employment disclosures provided by a school on or after July 1, 2011.

*Eligibility – school:* To participate in Title IV programs, a school must be legally established or authorized by a state to provide postsecondary educational programs to students in the state. The state must have a process to review and appropriately act on complaints concerning the school including enforcing applicable state laws. A school must provide a student with the name of its accrediting agency, state, federal, or tribal licensing and/or authorization entity, and applicable contact information for filing a complaint with each accreditor and any state approval or licensing entity, as well as any other relevant state official or agency that would appropriately handle a student's complaint. Effective for establishing school eligibility on or after July 1, 2011.

If a written agreement is between two or more eligible schools owned or controlled by the same individual, partnership, or corporation, the educational programs offered under those written agreements are considered eligible programs if they meet all other eligibility requirements and the school that grants the degree or certificate provides more than 50% of the educational program. An eligible school may enter into an agreement with an ineligible organization that is not a school. A school that offers an educational program under an agreement with another school or organization must disclose certain information to its students and prospective students. Effective for written agreements entered into by schools on or after July 1, 2011.

As a condition of Title IV eligibility, a school may not provide any commission, bonus, or other incentive payment to a person or entity engaged in student recruitment, admission activities, or making decisions regarding the awarding of Title IV aid based in any part, directly or indirectly, upon the success of securing enrollments or the awarding of financial aid. A commission, bonus, or other incentive payment is defined as a sum of money or something of value, other than a fixed salary or wages, paid to or given to a person or an entity for services rendered. Effective for incentive compensation provided by a school to a person or entity on or after July 1, 2011.

A school must develop and follow procedures to evaluate the validity of a student's claim of high school completion if the school or the Department has reason to believe that the student's high school diploma is not valid or the student obtained a diploma from an entity that does not provide secondary school education. Effective for determinations by a school or the Department that a student's claim of high school completion is suspect on or after July 1, 2011, beginning with applicants who complete a FAFSA for the 2011-2012 award year.

Schools are prohibited from making false, erroneous, or misleading statements to current, prospective, or graduating students. Effective for information provided by a school on or after July 1, 2011.

As a condition of eligibility, a school must report gainful employment data to the Department for the following types of programs:

- Any program offered by a postsecondary vocational institution.
- Any program offered by a proprietary institution, with the exception of a liberal arts baccalaureate program.
- Any program offered by an institution of higher education that:
  - Is at least one academic year in length.
  - Leads to a certificate or other non-degree recognized credential.
  - Prepares students for gainful employment in a recognized occupation.

For each student enrolled in such a program, the school must report the following:

- Information needed to identify the student and the school the student attended.
- If the student began attending a program during the award year, the name and the Classification of Instructional Program (CIP) code of that program.

If the student completed a program during the award year, the school also must report all of the following:

- The name and CIP code of that program, and the date the student completed the program.
- The amounts the student received from private education loans and the amount from the school's own financing plans that the student owes the school upon completing the program.
- Whether the student matriculated to a higher credentialed program at the school or, if available, evidence that the student transferred to a higher credentialed program at another school.

For each program for which gainful employment data reporting is required, the school must report, by name and CIP code, the total number of students enrolled in the program at the end of each award year and identifying information for those students. A school must provide the required gainful employment data to the Department, as follows:

- No later than October 1, 2011, for information from the 2006-2007 award year to the extent that the information is available.
- No later than October 1, 2011, for information from the 2007-2008 through 2009-2010 award years.
- No earlier than September 30, but no later than the date established by the Department through a notice published in the *Federal Register*, for information from the most recently completed award year.

For any award year, if a school is unable to provide all or some of the required information, the school must provide an explanation of why the missing information is not available. Effective July 1, 2011.

A school must notify the Department at least 90 days before the first day of class when it intends to add an educational program that prepares students for gainful employment in a recognized occupation, as defined earlier in this subsection. An "additional" educational program for this purpose is one of the following:

- A program with a CIP code under the taxonomy of instructional program classifications and descriptions developed by the Department's National Center for Education Statistics that is different from any other program offered by the school.
- A program that has the same CIP code as another program offered by the school but leads to a different degree or certificate.
- A program that the school's accrediting agency determines to be an additional program.

A school's notice to the Department of the school's intent to offer an additional educational program that prepares students for gainful employment must provide all of the following:

- A description of how the school determined the need for the program and how the program was designed to meet local market needs, or for an online program, regional or national market needs. This description must contain any wage analysis the school may have performed, including any consideration of Bureau of Labor Statistics data related to the program.
- A description of how the program was reviewed or approved by, or developed in conjunction with, business advisory committees, program integrity boards, public or private oversight or regulatory agencies, and businesses that would likely employ graduates of the program.
- Documentation that the program has been approved by its accrediting agency or is otherwise included in the school's accreditation by its accrediting agency, or comparable documentation if the school is a public postsecondary vocational school approved by a recognized state agency for the approval of public postsecondary vocational education in lieu of accreditation.
- The date of the first day of class of the new program.

The school may offer the program described in its notice, unless the Department advises the school at least 30 days before the first day of class that the program must be approved. A school that does not provide a timely notice to the Department must obtain approval for the new program before offering that program to its students. Effective for new gainful employment educational programs in which initial enrollment begins after July 1, 2011.

A school that elects to evaluate satisfactory academic progress (SAP) after each payment period has more flexibility in Title IV funding options than a school that chooses to measure SAP less frequently. A school's SAP policy must specify the pace at which a student must progress through his or her educational program to ensure that the student will complete the program within the maximum timeframe. Pace is calculated by dividing the total number of hours the student has successfully completed by the total number of hours the student has attempted. The school is not required to include remedial courses in the pace calculation. The terms "financial aid probation" and "financial aid warning" are codified into regulations to provide standardized terminology among schools. Effective for gainful employment reporting provided by a school on or after July 1, 2011.

*Eligibility – borrower:* A school must develop and follow procedures to evaluate the validity of a student's claim of high school completion if the school or the Department has reason to believe that the student's high school diploma is not valid or the student obtained a diploma from an entity that does not provide secondary school education. Effective determinations by a school or the Department that a student's claim of high school completion is suspect on or after July 1, 2011, beginning with applicants who complete a FAFSA for the 2011-2012 award year.

*Enrollment status:* Repeated courses are allowed to count towards a student's Title IV enrollment status for a term-based program (using standard or nonstandard terms) in certain situations. Previously-failed repeated courses count toward a student's Title IV enrollment status. Previously-passed coursework that is repeated (for example, to obtain a better grade) may be counted only once toward a student's Title IV enrollment status. Previously-passed coursework that the school requires the student to repeat due to the student failing other coursework may not be counted. Effective for Title IV enrollment status determinations made by the school on or after July 1, 2011.

*Foreign school:* A foreign school must submit an audited financial statement of the most recently completed fiscal year, as follows:

- A public or nonprofit foreign school, which is not in its initial provisional period, that has received less than $500,000 (U.S) in Title IV funds during the most recent fiscal year is not required to submit an audited financial statement unless requested to do so by the Department.

- A public or private nonprofit foreign school, that has received at least $500,000 but less than $3,000,000 (U.S.) in Title IV funds during the most recent fiscal year, must submit, in English, an audited financial statement that adheres to the generally accepted accounting principles of that school's home country.

- A public or private nonprofit foreign school, that has received at least $3,000,000 but less than $10,000,000 (U.S.) in Title IV funds during the most recent fiscal year, must submit, in English, an audited financial statement that adheres to the generally accepted accounting principles of that school's home country. In addition, every third year, the school must submit corresponding documents that meet U.S. generally accepted accounting principles, and the requirements of 34 CFR §668.23(d).

An audited financial statement that adheres to the generally accepted accounting principles of that school's home country must be submitted, in English, on an annual basis, by:

- Any public or private nonprofit foreign school, that has received $10,000,000 (U.S) or more in Title IV funds during the most recent fiscal year.

- Any for-profit foreign school.

- Any foreign school still in its initial provisional status.

In addition, every third year, such schools must submit corresponding documents that meet U.S. generally accepted accounting principles and the requirements of 34 CFR §668.23(d).

The Department may require a financial audit or additional documentation at any time for research, audit, or investigative purposes. Effective for foreign school audited financial statement submissions on or after July 1, 2011.

*Notifications – borrower and student:* A school must provide Pell grant-eligible students with a method to obtain or purchase necessary books and supplies. The school must describe in its financial aid information and its notifications to the enrolled or prospective student, the way this aid is determined and disbursed, delivered, or applied to a student's account and the frequency of those disbursements. The information must indicate whether the school would enter a charge on the student's account at the school for necessary books and supplies or pay funds to the student directly. Effective for Title IV credit balances to Pell-grant eligible students for necessary books and supplies for the payment period for periods beginning on or after July 1, 2011.

*Return of Title IV funds:* A school is required to record attendance if any of the following conditions exist:

- An outside entity requires that the school record attendance.
- The school itself has a requirement that its instructors take attendance.
- The school or an outside entity has a requirement that can only be met by recording attendance or a comparable process.

Effective for students who withdraw on or after July 1, 2011.

A school may use a last date of attendance at an academically related activity as the withdrawal date for a student for whom the school is not required to record attendance, and who withdraws without initiating the school's withdrawal process. Regulations provide a revised list of examples of academically related activities.

The school must confirm and document the student's attendance at an academically related activity. A school may not rely solely on a student's self-certification that he or she attended an academically related activity. Effective for withdrawal determinations made by a school on or after July 1, 2011.

*Withdrawal:* A school is required to record attendance if any of the following conditions exists:

- An outside entity requires that the school record attendance.
- The school itself has a requirement that its instructors take attendance.
- The school or an outside entity has a requirement that can only be met by recording attendance or a comparable process.

Effective for students who withdraw on or after July 1, 2011.

For a term-based program offered in modules, if the student withdraws and misses only a portion of a module or modules during a term, but re-enters within that period of enrollment or payment period, the school is not required to recalculate the student's award based on the student's attendance in only a portion of a module. The school must restore the student's original award, and is not required to adjust any award based on the student's attendance in only part of a module. If, however, the student withdraws and does not attend any portion of a module for which he or she was originally scheduled, the school must re-evaluate the student's cost of attendance based on the omitted module(s) and adjust the Title IV aid eligibility prior to awarding additional funds.

If the student who is enrolled in a program offered in modules withdraws and confirms at the time of withdrawal his or her intent to resume enrollment within the payment period or period of enrollment, as applicable, and, for a clock-hour or non-term-based program, within 45 days of the date of withdrawal, but fails to return, the withdrawal date is the last day of the student's recorded, eligible academic attendance if the school is considered to be "required to record attendance." At a school that is not required to record attendance, normal rules apply for determining the withdrawal date.

A student who ceases attendance in a credit-hour program offered in modules is *not* considered to have withdrawn if the school obtains written confirmation from the student at or close to the time of his or her withdrawal that the student will attend a subsequent module in the same program and payment period or, as applicable, period of enrollment. The school may not rely solely on the student's enrollment or registration in a subsequent module prior to his or her withdrawal unless the student registered for that subsequent module at the time he or she withdrew. Effective July 1, 2011 for students who withdraw from payment periods or periods of enrollment that begin on or after that date.

A school may use a last date of attendance at an academically related activity as the withdrawal date for a student for whom the school is not required to record attendance, and who withdraws without initiating the school's withdrawal process. Regulations provide a revised list of examples of academically related activities.

The school must confirm and document the student's attendance at an academically related activity. A school may not rely solely on a student's self-certification that he or she attended an academically related activity. Effective for withdrawal determinations made by a school on or after July 1, 2011.

**July 13, 2011**

The Department publishes DCL GEN-11-13 to provide information about the *Federal Register* noticed published on July 13, 2011, detailing the FAFSA information than an institution and an applicant may be required to verify for the 2012-2013, award year and how the verification process will be implemented in that award year.

**July 20, 2011**

The Department publishes DCL GEN-11-14 to provide guidance on the return of Title IV funds final regulations published on October 29, 2010.

**July 26, 2011**

The Department publishes DCL GEN-11-15 to provide guidance on the conditions and documentation that support the use of dependency overrides by financial aid administrators and offers several examples of such dependency overrides.

**August 2, 2011**

The President signs into law the Budget Control Act of 2011 (P.L. 112-25) which made changes to the Federal Direct Loan Program.

**August 31, 2011**

The Department publishes DCL GEN-11-16 to provide a summary of changes made to the William D. Ford Federal Direct Loan Program by the recently enacted Budget Control Act of 2011.

**October 1, 2011**

*Delivering loan funds:* For a loan first disbursed on or after October 1, 2011, a school is exempt from delayed delivery of Stafford loans and, under certain conditions, multiple disbursement of Stafford and PLUS loans if the school's official cohort default rate is less than 15% for each of the three most recent fiscal years for which data are available. Effective for the multiple disbursement exemption for loan disbursements made on or after October 1, 2011. Effective for the delayed delivery exemption, for Stafford loans first disbursed on or after October 1, 2011.

**October 25, 2011**

The Department publishes DCL GEN-11-18 to provide guidance on the Title IV, HEA program eligibility of educational programs offered through written arrangements between U.S. and foreign institutions.

**November 22, 2011**

The Department published DCL GEN-11-19 announcing the approval of the revised version of the Loan Discharge Application: Unpaid Refund.

**November 23, 2011**

The Department published DCL GEN-11-20 to advise foreign institutions that they are not eligible under the Federal Direct Loan Program if they do not directly award recognized educational credentials.

# 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.
- 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.

- Based on guidance from the Department in October 1994, lenders were not permitted to adjust special allowance billings for loans for which the applicable interest rate was retroactively revised. Based on guidance from the Department dated March 1, 1998, lenders were permitted to recalculate special allowance billings on loans for which the applicable interest rate was retroactively revised, for all or part of the period from July 23, 1992, to December 31, 1994. [DCLs 94-L-171 and 98-L-202]

- 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.

## Summary of Variable-Rate Conversion Provisions — Figure H-1

| Loans Subject to Conversion | Quarterly Variable Interest Rates prior to Conversion to an Annual Variable Interest Rate[1] | | Annual Variable Interest Rates after Conversion to an Annual Variable Interest Rate | |
|---|---|---|---|---|
| *Higher Education Amendments of 1986:*<br><br>8%/10% Stafford loans first disbursed before July 23, 1992, when such loans are accruing at the 10% interest rate.<br><br>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 9/30/92: | **7.03%** | 7/1/93 through 6/30/94: | **6.37%** |
| | Quarter ending 12/31/92: | **6.39%** | 7/1/94 through 6/30/95: | **7.58%** |
| | Quarter ending 3/31/93: | **6.42%** | 7/1/95 through 6/30/96: | **9.07%** |
| | Quarter ending 6/30/93: | **6.30%** | 7/1/96 through 6/30/97: | **8.41%** |
| | Quarter ending 9/30/93: | **6.30%** | 7/1/97 through 6/30/98: | **8.41%** |
| | Quarter ending 12/31/93: | **6.33%** | 7/1/98 through 6/30/99: | **8.41%** |
| | Quarter ending 3/31/94: | **6.39%** | 7/1/99 through 6/30/00: | **7.87%** |
| | Quarter ending 6/30/94: | **6.59%** | 7/1/00 through 6/30/01: | **9.14%** |
| | Quarter ending 9/30/94: | **7.40%** | 7/1/01 through 6/30/02: | **6.94%** |
| | Quarter ending 12/30/94: | **7.88%** | 7/1/02 through 6/30/03: | **5.01%** |
| | Quarter ending 3/31/95: | **8.71%** | 7/1/03 through 6/30/04: | **4.37%** |
| | | | 7/1/04 through 6/30/05: | **4.32%** |
| | | | 7/1/05 through 6/30/06: | **6.25%** |
| | | | 7/1/06 through 6/30/07: | **8.09%** |
| | | | 7/1/07 through 6/30/08: | **8.17%** |
| | | | 7/1/08 through 6/30/09: | **5.16%** |
| | | | 7/1/09 through 6/30/10: | **3.43%** |
| | | | 7/1/10 through 6/30/11: | **3.42%** |
| *Higher Education Amendments of 1992:*<br><br>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. | Quarter ending 9/30/92: | **6.88%** | 7/1/93 through 6/30/94: | **6.22%** |
| | Quarter ending 12/31/92: | **6.24%** | 7/1/94 through 6/30/95: | **7.43%**[2] |
| | Quarter ending 3/31/93: | **6.27%** | 7/1/95 through 6/30/96: | **8.92%**[3] |
| | Quarter ending 6/30/93: | **6.15%** | 7/1/96 through 6/30/97: | **8.26%**[3] |
| | Quarter ending 9/30/93: | **6.15%** | 7/1/97 through 6/30/98: | **8.26%**[3] |
| | Quarter ending 12/31/93: | **6.18%** | 7/1/98 through 6/30/99: | **8.26%**[3] |
| | Quarter ending 3/31/94: | **6.24%** | 7/1/99 through 6/30/00: | **7.72%**[2] |
| | Quarter ending 6/30/94: | **6.44%** | 7/1/00 through 6/30/01: | **8.99%**[3] |
| | Quarter ending 9/30/94: | **7.25%**[2] | 7/1/01 through 6/30/02: | **6.79%** |
| | Quarter ending 12/30/94: | **7.73%**[2] | 7/1/02 through 6/30/03: | **4.86%** |
| | Quarter ending 3/31/95: | **8.56%**[3] | 7/1/03 through 6/30/04: | **4.22%** |
| | | | 7/1/04 through 6/30/05: | **4.17%** |
| | | | 7/1/05 through 6/30/06: | **6.10%** |
| | | | 7/1/06 through 6/30/07: | **7.94%**[2] |
| | | | 7/1/07 through 6/30/08: | **8.02%**[3] |
| | | | 7/1/08 through 6/30/09: | **5.01%**[3] |
| | | | 7/1/09 through 6/30/10: | **3.28%**[3] |
| | | | 7/1/10 through 6/30/11: | **3.27%**[3] |

[1] Quarterly interest rates are determined by adding 3.25% for the "1986 loans" or 3.10% for the "1992 loans" to the average of the bond equivalent rate of the 91-day Treasury bill rate as auctioned for the preceding 3-month period.

[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% interest rate, which are capped at 7%.

[3] 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.

# 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 §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 coursework did exceed one academic year.
- The coursework 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.

**Effective for borrower eligibility certified by the school on or after August 14, 2008**

*The Higher Education Opportunity Act of 2008 was signed into law on August 14, and the ability-to-benefit (ATB) provisions in that law were effective on that date.*

The new provisions allow a student who does not have a high school diploma or its equivalent to demonstrate an ability to benefit by satisfactorily completing six credit hours or equivalent coursework that is applicable toward a degree or a certificate offered by the school. The student who completes those hours or their equivalent becomes eligible for Title IV aid. The student is not eligible for Title IV aid while earning the six credit hours or their equivalent.

#### Effective for borrower eligibility certified by the school on or after July 1, 2011

Regulations define the "equivalent" of six credit hours for students as six semester, trimester, or quarter hours, or 225 clock hours. A student enrolled in a program offered in modules may successfully complete the requisite hours within a payment period, and the school may calculate the cost of attendance for the remainder of the term or payment period, as appropriate, and disburse aid for the remaining modules.

## 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 Department.

#### 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.

# H.4
# History of Statutory and Regulatory Waivers

## H.4.A
## Waivers for Operations Desert Shield/Desert Storm

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 DCLs GEN-91-11 and GEN-91-19 and the *Federal Register* dated September 16, 1991.

## H.4.B
## HEROES Act Waivers

The Higher Education Relief Opportunities for Students (HEROES) Act of 2003 (P.L. 108-76) requires the Department to publish waivers or modifications to statutory or regulatory provisions applicable to the Title IV federal student aid programs. The HEROES Act directs the Department to publish waivers and modifications that are appropriate to assist "affected individuals" who are also federal student aid applicants and recipients. The Department originally announced the HEROES Act waivers in a *Federal Register* notice dated December 12, 2003, effective until September 30, 2005. In a *Federal Register* notice dated October 20, 2005, the Department extended the waivers to September 30, 2007. The Department further extended the waivers to September 30, 2012, in a *Federal Register* notice published December 26, 2007, unless the Department terminates or otherwise changes the provisions prior to that date.

Not all waivers and modifications apply to all affected individuals. The Department designated four categories of waiver recipients, and identified specific waivers and modifications that apply to each category. In addition to granting waivers to affected individuals, the Department also granted waivers to the *dependents and spouses* of two categories of affected individuals (see Figure H-2 under "HEROES Act Waivers and Modifications").

#### Affected Individuals under the HEROES Act

The HEROES Act defines an "affected individual" as any one of the following:

- A member of a U.S. Armed Force serving on active duty in connection with a war or other military operation, a national emergency, or subsequent actions or conditions, who is assigned to a duty station at a location other than the location at which the individual is normally assigned.

  – Active duty service includes a Reserve, or a retired member of a U.S. Armed Force ordered to active duty in connection with a war or other military operation, or a national emergency, regardless of the location at which that active duty service was performed.

- A member of the National Guard on full-time National Guard duty under a call to active service authorized by the president or the Secretary of Defense for a period of more than 30 consecutive days in connection with a war or other military operation, or a national emergency.

- An individual who resides or is employed in an area that was declared a disaster area by any federal, state, or local official in connection with a national emergency.

- An individual who suffers direct economic hardship as a direct result of a war or other military operation, or a national emergency, as determined by the Department.

For the purpose of determining who is an "affected individual," additional conditions apply, as follows:

- "Active duty" *excludes* active duty for training or attendance at a service school (e.g., the U.S. Military Academy or the U.S. Naval Academy).

- "Military operation" means a contingency operation, as defined in 10. U.S.C. Section 101(a)(13).

- "National emergency" means a national emergency declared by the president of the United States.

**HEROES Act Waivers and Modifications**

Figure H-2 lists, by topic, each of the statutory and regulatory waivers or modifications the Department authorizes and identifies the individuals to which that waiver or modification applies. Statutory and regulatory waiver and modification topics listed in Figure H-2 and in the more detailed waiver or modification description that follows are presented in life-of-a-loan order, corresponding to the progression of policies within the *Common Manual* to the extent possible.

## HEROES Act Waivers and Modifications — Figure H-2

| | | WAIVER RECIPIENT* | | | | | |
|---|---|---|---|---|---|---|---|
| **WAIVER TOPIC** | **Current Requirement Reference** | **U.S. Armed Forces Member** | **Dependent or Spouse of U.S. Armed Forces Member** | **National Guard Member** | **Dependent or Spouse of National Guard Member** | **Individual Lived or Worked in Declared Disaster Area** | **Individual Suffered Direct Economic Hardship** |
| 1. Signatures required for the FAFSA, SAR, and ISIR | 09-10 FSA Handbook, Application and Verification Guide, Chapter 2, p. AVG-39 | | X | | X | | |
| 2. Reinstatement of Title IV Eligibility | 5.2.E; 09-10 FSA Handbook, Volume 1, Chapter 3, p. 1-52 | X | | X | | X | |
| 3. Professional Judgment | 6.5.D, 6.6.B; 09-10 FSA Handbook, Application and Verification Guide, Chapter 5, p. AVG-105 | X | | X | | X | X |
| 4. Need Analysis | 6.6; 07-08 FSA Handbook, Application and Verification Guide, Chapter 3 | X | X | X | X | X | X |
| 5. Verification of AGI and Income Tax Paid | 8.5; 09-10 FSA Handbook, Application and Verification Guide, Chapter 4, pp. AVG-87 and AVG-90 | X | | X | | | |
| 6. Verification Signature Requirements | 8.5; 09-10 FSA Handbook, Application and Verification Guide, Chapter 4, pp. AVG-86 to AVG-87 | | X | | X | | |
| 7. Cash Management – Borrower Notice to Cancel Loan | 8.2.D; 09-10 FSA Handbook, Volume 4, Chapter 1, pp. 4-3 to 4-5 | X | | X | | X | |
| 8. Cash Management – Required Authorizations | 8.3; 09-10 FSA Handbook, Volume 4, Chapter 1, pp. 4-6 to 4-7 | X | | X | | X | |
| 9. Satisfactory Academic Progress | 8.4; 09-10 FSA Handbook, Volume 2, Chapter 10, p. 2-125 | X | | X | | X | |
| 10. Delivering Credit Balances for a Withdrawn Student | 8.8.D; 09-10 FSA Handbook, Volume 5, Chapter 2, pp. 5-42 to 5-44 | X | | X | | X | |
| 11. Approved Leave of Absence | 9.3; 09-10 FSA Handbook, Volume 5, Chapter 2, pp. 5-32 to 5-38 | X | | X | | X | |

* See the subheading "Affected Individuals," above, for detailed information about criteria that HEROES Act waivers and modification recipients must meet.

| | | WAIVER RECIPIENT* | | | | | |
|---|---|---|---|---|---|---|---|
| **WAIVER TOPIC** | **Current Requirement Reference** | **U.S. Armed Forces Member** | **Dependent or Spouse of U.S. Armed Forces Member** | **National Guard Member** | **Dependent or Spouse of National Guard Member** | **Individual Lived or Worked in Declared Disaster Area** | **Individual Suffered Direct Economic Hardship** |
| 12. Refund of Institutional Charges | 9.5.A; 09-10 FSA Handbook, Volume 5, Chapter 2, pp. 5-38 to 5-41 | X | | X | | | |
| 13. Return of Title IV Funds – Post-withdrawal Disbursements | 9.5.A; 09-10 FSA Handbook, Volume 5, Chapter 2, p. 5-96 | X | | X | | X | |
| 14, Return of Title IV Funds – Grant Overpayments Owed by the Student | 9.5.A; 09-10 FSA Handbook, Volume 5, Chapter 2, p. 5-104 | X | | X | | X | X |
| 15. Return of Title IV Funds – Unearned Funds Owed by the School | 9.5.A, 9.5.B; 09-10 FSA Handbook, Volume 5, Chapter 2, p. 5-100 | X | | X | | X | X |
| 16. In-School and Grace Period | 10.2, 10.3.C | X | | X | | X | |
| 17. Deferment – In-School and Graduate Fellowship | 11.5, 11.6; Figure 11-1 | X | | X | | X | |
| 18. Deferment – Armed Forces | 11.3; Figure 11-1 | X | | X | | | |
| 19. Forbearance | 11.23.B | X | | X | | X | |
| 20. Rehabilitation of Defaulted Loans | 13.7 | X | | X | | X | |
| 21. Loan Forgiveness | 13.9.A | X | | X | | X | |
| 22. Consolidating Defaulted Title IV Loans | 15.2 | X | | X | | X | |
| 23. Collection Activities on Defaulted Title IV Loans | §682.410; 07-08 FSA Handbook, Volume 6 | X | | X | | X | |

* See the subheading “Affected Individuals,” above, for detailed information about criteria that HEROES Act waivers and modification recipients must meet.

For each topic discussed below, any applicable statutory or regulatory requirement is summarized and followed by a description of the waiver or modification that pertains to that requirement.

1. *Signatures Required on the Free Application for Federal Student Aid (FAFSA), Student Aid Report (SAR), and Institutional Student Information Record (ISIR)* (see the 09-10 FSA Handbook, Application and Verification Guide, Chapter 2, p. AVG-39)

   Generally, when a dependent student applies for Title IV aid and submits a FAFSA or submits corrections to a previously submitted FAFSA, at least one parental signature is required.

   This requirement is waived, so that an applicant need not provide a parent's signature when there is no responsible parent who can provide the required signature because of the parent's status as an affected individual. In these situations, a student's high school counselor or the financial aid administrator (FAA) may sign on behalf of the parent as long as the applicant provides adequate documentation concerning the parent's inability to provide a signature due to the parent's status as an affected individual.

2. *Reinstatement of Title IV Eligibility* (see Subsection 5.2.E and the 09-10 FSA Handbook, Volume 1, Chapter 3, p. 1-52)

   To have eligibility for Title IV aid reinstated, a defaulted borrower must make satisfactory repayment arrangements, i.e., six consecutive, full, monthly payments to the appropriate holder of 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.

   The requirement for the borrower to make consecutive payments in order to reestablish eligibility for Title IV aid is waived. Guarantors should not treat any payment missed during the time that a borrower is an affected individual as an interruption in the requisite six consecutive, monthly, on-time payments. When the borrower is no longer considered to be an affected individual, or in a 3-month transition period that immediately follows, the required sequence of qualifying payments may resume at the point at which they were discontinued as a result of the borrower's status.

3. *Professional Judgment* (see Subsections 6.5.D and 6.6.B, and the 09-10 FSA Handbook, Application and Verification Guide, Chapter 5, p. AVG-105)

   An FAA may use professional judgment to increase or decrease a student's cost of attendance (COA), or to increase or decrease a specific data element within the calculation of the expected family contribution (EFC), based on extenuating circumstances and on a case-by-case basis.

   This provision is modified by removing the requirement that adjustments be made on a case-by-case basis for affected individuals. FAAs are encouraged to use professional judgment to more accurately reflect the financial need of affected individuals.

   In addition, FAAs are encouraged to use the most beneficial of any one of the following methods to determine need for any affected individual:

   - The individual's need using the adjusted gross income plus untaxed income and benefits received in the first calendar year of the award year.
   - The individual's need as determined using professional judgment.
   - The individual's unmodified need. (For example, in some cases, an individual's income will increase as a result of serving on active duty or performing qualifying National Guard duty.)

   An FAA must clearly document the reasons for any adjustment to the COA or the data elements within the EFC calculation, and report any professional judgment decisions that affected a student's eligibility for a Federal Pell grant to the Central Processing System (CPS).

4. *Need Analysis* (see Section 6.6 and the 07-08 FSA Handbook, Application and Verification Guide, Chapter 3)

   In the calculation of an applicant's EFC, the term "total income," which is used in the determination of "annual adjusted family income" and "available income," is equal to the adjusted gross income (AGI), plus untaxed income and benefits for the preceding tax year, minus excludable income.

   This provision is modified to allow a school to substitute AGI plus untaxed income and benefits received in the first calendar year of the award year for

which a need determination is made for any affected individual, and, if applicable, for the applicant's spouse and dependents, in order to more accurately reflect the financial condition of the affected individual and his or her family. A school has the option of using the applicant's original EFC, or the EFC based on the data from the first calendar year of the award year. If a school chooses to use an alternate EFC, it should use the alternative administrative professional judgment procedures described above under the subheading entitled "Professional Judgment."

5. *Verification of AGI and U.S. Income Tax Paid* (see Section 8.5 and the 09-10 FSA Handbook, Application and Verification Guide, Chapter 4, pp. AVG-87 and AVG-90)

   When an individual whose income was used in the calculation of the EFC has not filed an income tax return because he or she has been granted a filing extension by the Internal Revenue Service (IRS), a school must obtain, in lieu of an income tax return for verification of AGI or income tax paid, both of the following:

   - A copy of IRS form 4868, "Application for Automatic Extension of Time to File U.S. Individual Income Tax Return," that the individual filed with the IRS for the base year. If the individual requested an additional extension of the filing time frame, the school must obtain a copy of the IRS's approval of an extension beyond the automatic extension period, instead of a copy of the IRS form 4868.

   - A copy of each W-2 received for the base year. For a self-employed individual, a school must obtain a statement signed by the individual certifying the amount of AGI for the base year, instead of a W-2.

   This requirement is modified so that the submission of a copy of IRS form 4868 or a copy of the IRS extension approval is not required if an individual whose income was used in the calculation of the EFC met both of the following criteria:

   - The individual has not filed and was not required to file an income tax return by the filing deadline because he or she was called up for active duty or for qualifying National Guard duty during a war or other military operation, or national emergency.

   - The individual was not required to file an extension.

   For such an individual, a school must obtain, in lieu of an income tax return for verification of AGI or income tax paid, both of the following:

   - A statement from the individual certifying that he or she has not filed and was not required to file an income tax return or a request for filing extension because he or she was called up for active duty or for qualifying National Guard duty during a war or other military operation, or national emergency.

   - A copy of each W-2 received for the base year. For a self-employed individual, a school must obtain a statement signed by the individual certifying the amount of AGI for the base year, instead of a W-2.

   The school must obtain the tax return from the student once it is filed with the IRS in order for the school to confirm the AGI and taxes paid.

6. *Verification Signature Requirements* (see Section 8.5 and the 09-10 FSA Handbook, Application and Verification Guide, Chapter 4, pp. AVG-86 to AVG-87)

   To verify the number of family members in a dependent student's household and the number of the dependent student's family members who are enrolled in a postsecondary institution, a school must collect from the student a statement signed by one of the student's parents.

   The requirement for a school to collect a verification statement signed by one of a dependent student's parents is waived when no responsible parent can provide the required signature because of the parent's status as an affected individual.

7. *Cash Management - Borrower Notice to Cancel Loan* (see Subsection 8.2.D and the 09-10 FSA Handbook, Volume 4, Chapter 1, pp. 4-3 to 4-5)

   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 that 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.

For a borrower who is an affected individual, these provisions are modified to require a school to allow at least 60 days, rather than at least 14 days, for the borrower to request cancellation of all or a portion of the loan or loan disbursement. If a school receives a request from a borrower after the 60-day period, the school may, but is not required to, comply with the borrower's request.

8. *Cash Management - Required Authorizations* (see Section 8.3 and the 09-10 FSA Handbook, Volume 4, Chapter 1, pp. 4-6 to 4-7)

A school must obtain written authorization from a student or parent borrower, as applicable, to perform the following activities:

- Deliver Stafford or PLUS loan proceeds to the borrower's personal bank account.
- Use the Stafford or PLUS loan proceeds to pay for current-year charges other than tuition, fees, and contracted room and/or board.
- Hold a credit balance on behalf of the student or parent borrower.

These provisions are modified to permit a school to accept an authorization provided by the student or parent borrower orally, rather than in writing, if the student or parent is prevented from providing a written authorization because of his or her status as an affected individual.

9. *Satisfactory Academic Progress* (see Section 8.4 and the 09-10 FSA Handbook, Volume 2, Chapter 10, p. 2-125)

A school may determine that a student is making satisfactory progress even though the student does not satisfy the school's satisfactory academic progress requirements, if the school determines that the student's failure to meet those requirements is based on mitigating or special circumstances.

In cases when a student failed to meet satisfactory academic progress standards as a direct result of being an affected individual, schools are permitted to apply the mitigating or special circumstances exception noted above.

10. *Delivering Credit Balances for a Withdrawn Student* (see Subsection 8.8.D and the 09-10 FSA Handbook, Volume 5, Chapter 2, pp. 5-42 to 5-44)

If a student withdraws and has a Title IV credit balance on his or her account, the school must complete a return of Title IV funds calculation before delivering any portion of the credit balance to the student or returning any portion of the credit balance to the Title IV programs. Within 14 days of the date that the school performs the return of Title IV funds calculation, the school must pay any remaining Title IV credit balance. The school must first allocate the Title IV credit balance to repay any grant overpayment owed by the student as a result of the current withdrawal. If there is no grant overpayment owed, or if an additional credit balance exists on the account after a grant overpayment is repaid, the school must use the credit balance to pay outstanding, authorized charges at the school, reduce the student's loan debt (with the student's authorization), or deliver the credit balance to the student or parent borrower.

For a student who withdraws because he or she is an affected individual, a school is considered to have met the 14-day deadline for paying a credit balance if, within that 14-day period, the school attempts to contact the student or parent borrower, as applicable, to suggest that the student or parent borrower give permission for the school to return the credit balance to the loan program(s). The school must allow the student or parent borrower 45 days to respond. Within that 45-day period, based on the instructions of the student or parent borrower, the school must promptly return the loan funds or pay the credit balance to the student or parent borrower. If there is no response within 45 days, the school must promptly return the funds to the appropriate Title IV program. Instead of first requesting permission to return funds to a loan program in order to reduce the borrower's loan debt, the school may pay authorized charges at the school or directly pay the credit balance to the student or parent borrower. (See *14. Return of Title IV Funds – Grant Overpayments Owed by the Student* for additional information about a waiver that exempts certain affected individuals from owing a grant overpayment.)

11. *Approved Leave of Absence* (see Section 9.3 and the 09-10 FSA Handbook, Volume 5, Chapter 2, pp. 5-32 to 5-38)

    Before granting an approved leave of absence to a student, a school must collect from the student a written, signed, and dated request that includes the reason for the leave. Unforeseen circumstances may prevent a student from providing a written request prior to the leave of absence. In such cases, the school may grant the student's request for a leave of absence if it documents its decision and collects the student's written request at a later date.

    In certain limited cases, it may be appropriate for a school to provide an approved leave of absence to a student whose enrollment is interrupted because he or she is an affected individual. The requirement for a school to collect a student's written request for an approved leave of absence is waived when the student would have difficulty providing a written request as a result of being an affected individual.

12. *Refund of Institutional Charges* (see Subsection 9.5.A and the 09-10 FSA Handbook, Volume 5, Chapter 2, pp. 5-38 to 5-41)

    The institutional charges used in the return of Title IV funds calculation for a withdrawn student are always the institutional charges that were initially assessed the student for the payment period or period of enrollment, unless the school adjusted the student's institutional charges before the student withdrew.

    For an affected individual, schools are encouraged to provide a full refund of tuition, fees, and other institutional charges for the portion of a period of instruction that the student was either unable to complete, or for which the student did not receive academic credit. As an option, a school may choose to provide an affected individual with a credit in a comparable amount against future charges.

    However, before a school makes a refund of institutional charges, it must perform the required return of Title IV funds calculation based on the originally assessed institutional charges (see "*15. Return of Title IV Funds – Unearned Funds Owed by the School*" for an additional waiver relating to institutional charge amounts used in the return of Title IV funds calculation). After determining the amount that the school must return to the Title IV programs, any reduction of institutional charges may take into account the funds that the school is required to return. In other words, schools are not expected to both return funds to the Title IV programs and also provide a refund of those same funds to the student.

    Schools should consider providing easy and flexible reenrollment options to affected individuals, minimizing deferral of enrollment or reapplication requirements, and providing the greatest flexibility possible with administrative deadlines related to those applications.

13. *Return of Title IV Funds – Post-withdrawal Disbursements* (see Subsection 9.5.A and the 09-10 FSA Handbook, Volume 5, Chapter 2, p. 5-96)

    If a student (or parent) responds to a school's post-withdrawal disbursement notice within 14 days of the date the school sends the notice and instructs the school to make all or a portion of the post-withdrawal disbursement, the school must make the post-withdrawal disbursement of the credit balance (any amount that remains after the student's institutional charges are paid) within 120 days of determining that the student withdrew and in the manner specified by the student (or parent). If the student (or parent) responds to the school's notice after 14 days have expired, the school may, but is not required to, make the post-withdrawal disbursement of the credit balance to the student (or parent).

    This requirement is modified for a student who is an affected individual and eligible for a post-withdrawal disbursement so that the 14-day time period in which the student (or parent) must normally respond to the offer of the post-withdrawal disbursement is extended to 45 days. If the student (or parent) submits a response after the 45-day time period, the school may, but is not required to, make the post-withdrawal disbursement of the credit balance.

    If the student (or parent) submits a timely response instructing the school to make all or a portion of the post-withdrawal disbursement, or if the school chooses to make a post-withdrawal disbursement based on receipt of a late response, the school must deliver the funds within 120 days of determining that the student withdrew.

14. *Return of Title IV Funds – Grant Overpayments Owed by the Student* (see Subsection 9.5.A and the 09-10 FSA Handbook, Volume 5, Chapter 2, p. 5-104)

    If a student withdraws and the return of Title IV funds calculation shows that the student must repay funds to a Title IV grant program, the student is obligated to return only one half of the unearned grant amount.

    For a student who withdraws from a school because of his or her status as an affected individual, the student is not required to return or repay a grant overpayment based on the return of Title IV funds provisions. For these students, the following federal requirements are also waived:

    - The school's obligation to notify the student of a grant overpayment.
    - The actions a student must take to resolve the overpayment.
    - Denial of Title IV eligibility for a student who owes an overpayment and does not take any action to resolve the overpayment.
    - The school's obligation to refer an overpayment to the Department under certain conditions.

    A school is not required to contact the student, notify the National Student Loan Data System, or refer the overpayment to the Department. A school must document in the student's file the amount of any overpayment as part of the documentation of this waiver's application. A school must not apply a Title IV credit balance to the grant overpayment before paying any amount of the Title IV credit balance to the student or parent borrower. (See *Delivering Credit Balances for a Withdrawn Student*, above, for more information about the waiver that applies to delivering credit balances for affected individuals.)

15. *Return of Title IV Funds – Unearned Funds Owed by the School* (see Subsections 9.5.A and 9.5.B, and the 09-10 FSA Handbook, Volume 5, Chapter 2, p. 5-100)

    A school must return to the appropriate Title IV program its share of unearned funds for a withdrawn student. The amount that must be returned is the lesser of the amount of Title IV funds that the student did not earn, or the amount of institutional charges incurred by the student for the payment period or period of enrollment, multiplied by the percentage of funds not earned.

    A school must return unearned funds for an affected individual as it must for any student who withdraws. However, for a student who withdraws because of his or her status as an affected individual, the amount of any charges that the school is required to cover, and has covered, with non-Title IV sources of aid is excluded from the student's total institutional charges.

    **Example**: A student receives a state grant of $800 that must be used only for tuition charges. The school applies the state grant toward the total institutional charges of $1,000. The student withdraws. The school uses $200, the difference between the full institutional charges and the amount of the state grant the school was required to apply to institutional charges, as the student's total institutional charges for the payment period or period of enrollment when determining the amount of unearned Title IV funds that the school must return.

16. *In-School and Grace Period* (see Section 10.2 and Subsection 10.3.C)

    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. A Stafford loan borrower who has a loan in an in-school status that would subsequently enter a grace period, or has a loan in a grace period, and who is serving on active duty, performing qualifying National Guard duty, or residing or employed in a disaster area, is entitled to one or more extensions of the in-school or grace period. (For more information about the groups of affected individuals who are eligible for this waiver, see the subheading "Affected Individuals.") Any single extended period may not exceed 3 years. The maximum 3-year extension for any single extended period includes the time necessary for a borrower to resume enrollment at the next available and regularly scheduled period of enrollment, if the borrower plans to return to school. The Department pays the interest that accrues on subsidized Stafford loans during any extended period. Affected individuals are entitled to a full six-month or nine-month grace period, as applicable, upon completion of the excluded period.

17. *Deferment – In School and Graduate Fellowship* (see Sections 11.5 and 11.6, and Figure 11-1)

    Once the repayment period has begun, a qualified borrower is entitled to defer principal payments on a FFELP loan while enrolled at an eligible school or in an eligible graduate fellowship program. Generally speaking, a borrower's deferment period ends when the

condition establishing the borrower's eligibility for the deferment ends. (See Sections 11.5 and 11.6, and Figure 11-1 for detailed information about in-school and graduate fellowship deferment eligibility criteria.)

The Department waives the statutory and regulatory eligibility requirements for in-school and graduate fellowship deferments for borrowers who are required to interrupt a graduate fellowship or who are in an in-school deferment but must leave school because of their status as an affected individual. The loan holder is required to maintain the loan in a graduate fellowship or in-school deferment status for a period not to exceed 3 years during which the borrower was an affected individual. This period includes the time necessary for the borrower to resume his graduate fellowship program or resume enrollment in the next regular enrollment period if the borrower returns to school. The Department pays interest that accrues on a subsidized Stafford loan as a result of extending a borrower's eligibility for either type of deferment under this waiver.

18. *Deferment – Armed Forces* (see Section 11.3 and Figure 11-1): Certain borrowers are entitled to defer principal payments on a FFELP loan for periods not to exceed 3 years when the borrower is on active duty status in the U.S. Armed Forces, or a member of the National Guard or Reserves serving a period of full-time active duty in the Armed Forces. To qualify for deferment, the borrower must provide the loan holder with documentation establishing his or her eligibility for the deferment. (See Section 11.3 for detailed information about military deferment criteria.)

    The Department modifies the 3-year cumulative limit on armed forces deferment so that the time during which affected individuals are serving on active duty is excluded from the time limit. The Department pays interest that accrues on subsidized Stafford loans during an extended deferment period under this modification. In addition, the Department waives the requirement that a borrower request the deferment. A loan holder may grant deferment to an affected individual based on a request from a family member or other reliable source. Further, the Department waives documentation requirements to allow a loan holder to grant an affected individual an armed forces deferment for a 1-year period without documentation. In order to grant a military deferment beyond the initial 1-year period, the loan holder must obtain supporting documentation from the borrower, a member of the borrower's family, or another reliable source.

19. *Forbearance* (see Subsection 11.23.B): A loan holder must require a borrower who requests mandatory administrative forbearance because of military mobilization to provide documentation showing that the borrower is subject to a military mobilization.

    The Department waives this requirement to allow a borrower to receive forbearance at the request of the borrower, a member of the borrower's family, or another reliable source, for a one-year period, including a 3-month transition period that immediately follows, without providing the loan holder with documentation. In order to grant the borrower forbearance beyond this initial, fifteen-month period, the loan holder must obtain documentation supporting the borrower's military mobilization.

20. *Rehabilitation of Defaulted Loans* (see Section 13.7)

    To be eligible for rehabilitation, a defaulted borrower must make nine on-time (received within 20 days of the due date), full, monthly payments to the appropriate holder of each defaulted loan during a period of 10 consecutive months. These payments must be made voluntarily (directly by the borrower, regardless of whether there is a judgment against the borrower), and must be reasonable and affordable.

    The requirement that the borrower make payments as described in the preceding paragraph in order to rehabilitate a defaulted loan is waived. Guarantors should not treat any payment missed during the time that a borrower is an affected individual as an interruption in the requisite nine on-time, monthly payments during a period of 10 consecutive months. When the borrower is no longer considered to be an affected individual, or in a 3-month transition period that immediately follows, the required sequence of qualifying payments may resume at the point they were discontinued as a result of the borrower's status.

21. *Loan Forgiveness* (see Subsection 13.9.A)

    Borrowers may qualify for loan forgiveness if they are employed full-time in specified occupations (e.g., as per the Teacher Loan Forgiveness Program). Generally, to qualify for loan forgiveness, borrowers must perform uninterrupted, otherwise qualifying service for a specified length of time or for consecutive periods of time.

    The requirement that periods of service be uninterrupted and/or consecutive is waived, if the reason for the interruption is related to the borrower's status as an affected individual. The period during

which the borrower is an affected individual, including a 3-month transition period that immediately follows, will not be considered an interruption in the required service for the borrower to receive loan forgiveness.

22. *Consolidating Defaulted Loans* (see Section 15.2)

    A defaulted Title IV loan is eligible for consolidation if, at the time of application for the Consolidation loan, the borrower has agreed to repay the Consolidation loan under an income-sensitive repayment schedule, or the borrower has made satisfactory repayment arrangements. 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 3 months immediately preceding the receipt of a consolidating lender's verification certificate.

    For an affected individual who establishes eligibility to consolidate a defaulted loan by making satisfactory repayment arrangements, the requirement for consecutive monthly payments is waived. Guarantors should not treat any payment missed during the time that a borrower is an affected individual as an interruption in the requisite three consecutive, monthly, on-time payments. When the borrower is no longer considered to be an affected individual, or in a 3-month transition period that immediately follows, the required sequence of qualifying payments may resume at the point they were discontinued as a result of the borrower's status.

23. *Collection Activities on Defaulted Loans* (see 34 CFR 682.410 and the 07-08 FSA Handbook, Volume 6)

    Title IV loan holders must attempt to recover amounts owed from defaulted loan borrowers.

    The provisions that require collection activities on defaulted Title IV loans are waived for the time period during which the borrower is an affected individual. Collection activities may cease upon notification by the borrower, a member of the borrower's family, or another reliable source that the borrower is an affected individual. The loan holder is not required to obtain evidence of the borrower's status as an affected individual. Collection activities must resume after the borrower has notified the loan's holder that he or she is no longer an affected individual, and must include the 3-month transition period that immediately follows. The loan holder must document in the loan file the reason that it suspended collection activities.

#### Documentation Requirements

A school, lender, or guarantor must document the application of a waiver or modification in such a way that it can report to the Department, upon request, the effect of the waivers and modifications.

## H.4.C
## Higher Education Hurricane Relief Act Waivers

The Higher Education Hurricane Relief Act of 2005 (P.L. 109-148) authorized the Department to waive or modify any statutory or regulatory provision applicable to the Title IV programs, or any student or institutional eligibility provision in the HEA, as the Department deems necessary in connection with a Gulf hurricane disaster.

Based on this authority, on February 23, 2006, the Department published Electronic Announcement #9 and Electronic Announcement #12, stating that affected schools that were in possession of Title IV funds that were awarded to students enrolled for an academic period that was disrupted by Hurricane Katrina or Hurricane Rita will, generally, not be required to return those funds for students who withdrew or who never began attendance. For the purposes of this relief, an affected school is a school with a main campus that ceased on-campus operations for more than thirty days as a result of Hurricane Katrina or Hurricane Rita, as determined by the Department.

The Department waives the statutory and regulatory requirements pertaining to an interruption in a borrower's teaching service if the borrower was affected by Hurricane Katrina or Hurricane Rita. The waiver applies to any period beginning on the date of the relevant hurricane and continues through June 30, 2006.
[DCL GEN-06-07]

See Subsection H.4.D for additional waivers pertaining to a student or borrower who is affected by a hurricane or other disaster.

# H.4.D
# Disaster Waivers

In DCL GEN-04-04 posted on February 24, 2004, the Department issued general guidance for helping Title IV participants affected by a disaster. This guidance supplements the FSA Handbook and Disaster Letter 99-28, published August, 5, 1999, which provided separate guidance on the treatment of borrowers who have been affected by a disaster.

The Pell Grant Hurricane and Disaster Relief Act (P.L. 109-66) and the Student Grant Hurricane and Disaster Relief Act (P.L. 109-67) authorized the Department to provide a waiver of a student's Title IV grant overpayment if the student withdrew from a school because of a major disaster. On November 9, 2005, the Department issued DCL GEN-05-17, to implement the Title IV grant overpayment waiver.

On June 24, 2008, the Department issued GEN-08-10 to remind Title IV participants that the waivers first published in DCL GEN-04-04 and DCL GEN-05-17 remain in effect.

On August 23, 2010, the Department issued DCL GEN-10-16 to provide updated guidance for helping Title IV participants affected by Federal disaster. The guidance provided in DCL GEN-10-16 superseded the guidance in DCL GEN-04-04 and DCL GEN-05-17.

Unless stated otherwise, this regulatory relief applies to all Title IV recipients and their families who, at the time of a disaster, were residing in, employed in, or attending a school located in a federally-declared disaster area. This relief also applies to schools, lenders, servicers, and guaranty agencies that are located in such areas. Federally-declared disaster designations are available on the Federal Emergency Management Agency's (FEMA) Website. Only disasters designated for "Individual Assistance" are eligible for this regulatory relief.

A school or lender that deviates from otherwise required actions on the basis of these waivers must document that fact and indicate what alternative procedures were followed.

Schools should consult DCL GEN-10-16 for additional information about waivers that are specific to the Federal Pell Grant, Campus-Based, and Federal Direct Loan Programs.

### Need Analysis

A financial aid administrator (FAA) will not count special financial relief aid (for example, grants or low-interest loans) that a victim of a disaster received from the federal government or from a state as estimated financial assistance (EFA) or income for the purpose of calculating a student's expected family contribution (EFC).

### Professional Judgment

An FAA may exercise professional judgment to make adjustments to the cost of attendance (COA) or to the values of the items used in calculating the EFC to reflect a student's special circumstances (see Subsections 6.5.D and 6.6.B). The Department encourages an FAA to use professional judgment in order to reflect more accurately the financial need of students and families who are affected by a disaster. The FAA still must make adjustments on a case-by-case basis and clearly document the student's file with the reason(s) for any adjustment.

### Verification

A school is not required to complete verification during the award year for Title IV federal student aid applicants selected for verification whose records were lost or destroyed because of a disaster. A school must document when it does not perform verification for this reason.

### Recordkeeping Requirements for Schools

A school that is affected by a disaster is required to attempt to reconstruct Title IV federal student aid records that are lost because of the disaster. (See Section 4.5 and the 08-09 FSA Handbook, Volume 2, Chapter 9 for more information about required records that a school must maintain.) However, a school will not be held responsible for records and documentation that, because of disaster damage, cannot be reconstructed. The school must document that the records were lost due to a disaster.

### Disbursement of FFELP Loan Proceeds

A lender is not required to disburse FFELP loan proceeds to a school according to the school's original disbursement schedule if the lender has been informed that the school has delayed or will delay opening for a scheduled term, or has ceased operations for an undetermined period of time because the school was affected by a disaster. Such a school should request a revised disbursement date(s), and the lender should await a revised disbursement schedule from the affected school. A loan holder may revise information on the loan period and graduation date on a loan record related to the revised disbursement schedule as the

information becomes available from the school. In this case, neither the school nor the lender should require a borrower to reapply for a loan.

#### Credit Balances

If a Title IV credit balance exists for any reason when a student withdraws, including as a result of the school's policy for refunding institutional charges, that credit balance must first be applied to any Title IV grant overpayment that exists as a result of the student's withdrawal. However, if a school grants a waiver of any Title IV grant overpayment that exists as a result of the student's withdrawal, the school must not apply any Title IV credit balance toward the grant overpayment. See "Grant Overpayment Waiver" below.

#### Satisfactory Academic Progress

If a student fails to meet a school's satisfactory academic progress standards due to a disaster, the school may suspend the satisfactory academic progress standards for that student in accordance with its policies for satisfactory academic progress appeals due to mitigating circumstances. (For more information, see the 08-09 FSA Handbook, Volume 2, Chapter 10, pp. 2-127 and 2-130.) The school must document in the student's file that a disaster constituted the mitigating circumstances that caused the student's failure to maintain satisfactory academic progress.

#### Enrollment Reporting

If, as a direct result of a disaster, a school is unable to complete and return its Enrollment Reporting Submittal File to the National Student Loan Data System (NSLDS) according to the school's established schedule, the school must contact the NSLDS Customer Service Center (see Section D.6) to modify its reporting schedule. A school that uses a servicer to report enrollment information to the NSLDS should contact its servicer to determine whether the school's enrollment reporting data submission schedule should be adjusted. If a school receives a warning letter from NSLDS regarding missed reporting deadlines, it should contact NSLDS Customer Service to ensure that reporting schedule modifications have been made.

#### In-School Period

A Stafford loan borrower who was in an in-school period on the date the borrower's attendance at a school was interrupted due to a disaster should be continued in an in-school status until such time as the borrower withdraws or re-enrolls in the next regular enrollment period, whichever is earlier. This period of disaster-related nonattendance should not result in a borrower entering or using any of his or her grace period. This guidance does not affect the way a school should report a borrower's enrollment status on its Enrollment Reporting Submittal File (see Section 9.2).

#### Leaves of Absence

A school is not required to collect a written request for an approved leave of absence from a student who was directly affected by a disaster, nor does the request have to be made before the leave of absence starts. A school's documentation of its decision to grant the leave of absence must include the reason for the leave of absence and the reason for waiving the required written request made prior to the leave of absence. For more information about the requirements for an approved leave of absence, see Section 9.3.

#### Institutional Charges and Refunds

A school is strongly encouraged to provide a full refund of tuition, fees, and other institutional charges, or to provide a credit in a comparable amount against future charges for a student who withdraws from school as a direct result of a disaster. The Department urges a school to consider providing easy and flexible re-enrollment options to such a student. However, before a school makes a refund of institutional charges, it must perform the required return of Title IV funds calculation based upon the originally assessed institutional charges (see Subsection 9.5.A). After determining the amount that the school must return to the Title IV programs, any reduction of institutional charges should take into account the funds that the school is required to return. The Department does not expect that a school would both return funds to the Title IV programs and also provide a refund of those same funds to the student.

The school should not include the number of days on which classes were not offered as a result of the disaster in either the numerator or denominator of the return of Title IV funds calculation for students whose withdrawal date is after such an unscheduled break.

#### Grant Overpayment Waiver

A withdrawn student is not required to repay a Title IV grant overpayment if the circumstances of the student's withdrawal meet all of the following conditions:

- The student was residing in, employed in, or attending a school that is located in a federally-declared disaster area.

- The student withdrew because of the impact of the disaster on the student or the school.

- The student's withdrawal occurred within the academic year during which the federal disaster designation occurred or during the next succeeding academic year, beginning with any academic year that occurs, in whole or in part, with the 2005-06 award year.

A school that waives a student's grant overpayment under these conditions is not required to notify the student or the NSLDS of the overpayment, or refer any portion of the overpayment to the Department. In addition, a school must not apply any Title IV credit balance toward the grant overpayment.

In addition to documenting the application of this waiver in the student's file, a school must also document the amount of any overpayment that has been waived.

#### Deferment – In-School

A loan holder must treat a loan that was in an in-school deferment status on the date disaster conditions interrupted normal operations at a school as if the loan continues in an in-school deferment until such time as the borrower withdraws or re-enrolls at the next regular enrollment period, whichever is earlier. The borrower, a member of the borrower's family, or another reliable source should notify the loan holder(s) of the borrower's status. This guidance does not affect the way a school should report a borrower's enrollment status on its Enrollment Reporting Submittal File (see Section 9.2).

#### Administrative Forbearance

A loan holder may grant an administrative forbearance for up to 3 months to a borrower who has been adversely affected by a disaster. The loan holder must provide notice to the borrower allowing the borrower an opportunity to decline the forbearance. See Subsection 11.21.M.

#### Other Regulatory Requirements

A school that is affected by a disaster should contact the appropriate School Participation Team (see Section D.1) to address case-by-case concerns about the following regulatory requirements:

- Credit balances.

- Notices and authorizations.

- Borrower request for loan cancellation.

- Time frames for delivery or return of FFELP funds.

- Institutional eligibility.

- Financial responsibility.

- Administrative capability.

- Late disbursements.

- Return of Title IV funds deadlines and time frames, including the time frame for allowing a student, or parent borrower, to respond to the offer of a post-withdrawal disbursement.

## H.4.E
## Waiver of Borrower-by-Borrower LLR Designation

Through June 30, 2009, if a school requests and is granted a lender of last resort (LLR) designation by the Department, eligible student borrowers attending the school and eligible parent borrowers may obtain loans from the LLR. The LLR must make loans to eligible student borrowers attending the school and to eligible parent borrowers even if they are otherwise unable to obtain Stafford or PLUS loans from other eligible lenders for the same period of enrollment. [HEA §428(j)(3)]

A school that wishes to apply for the LLR designation must meet criteria established by the Department, including that the school, at a minimum:

- Demonstrates that it has made at least three attempts to identify participating lenders, beyond those lenders that had previously provided FFELP loans to students and parents of students attending the school, that will make FFELP loans.

- Documents its determination that 80% or more of the students and parents of students at its school are unable to obtain FFELP loans.

- Provides other documentation and information specified by the Department.
[HEA §428(j)(4); DCL GEN-08-08]

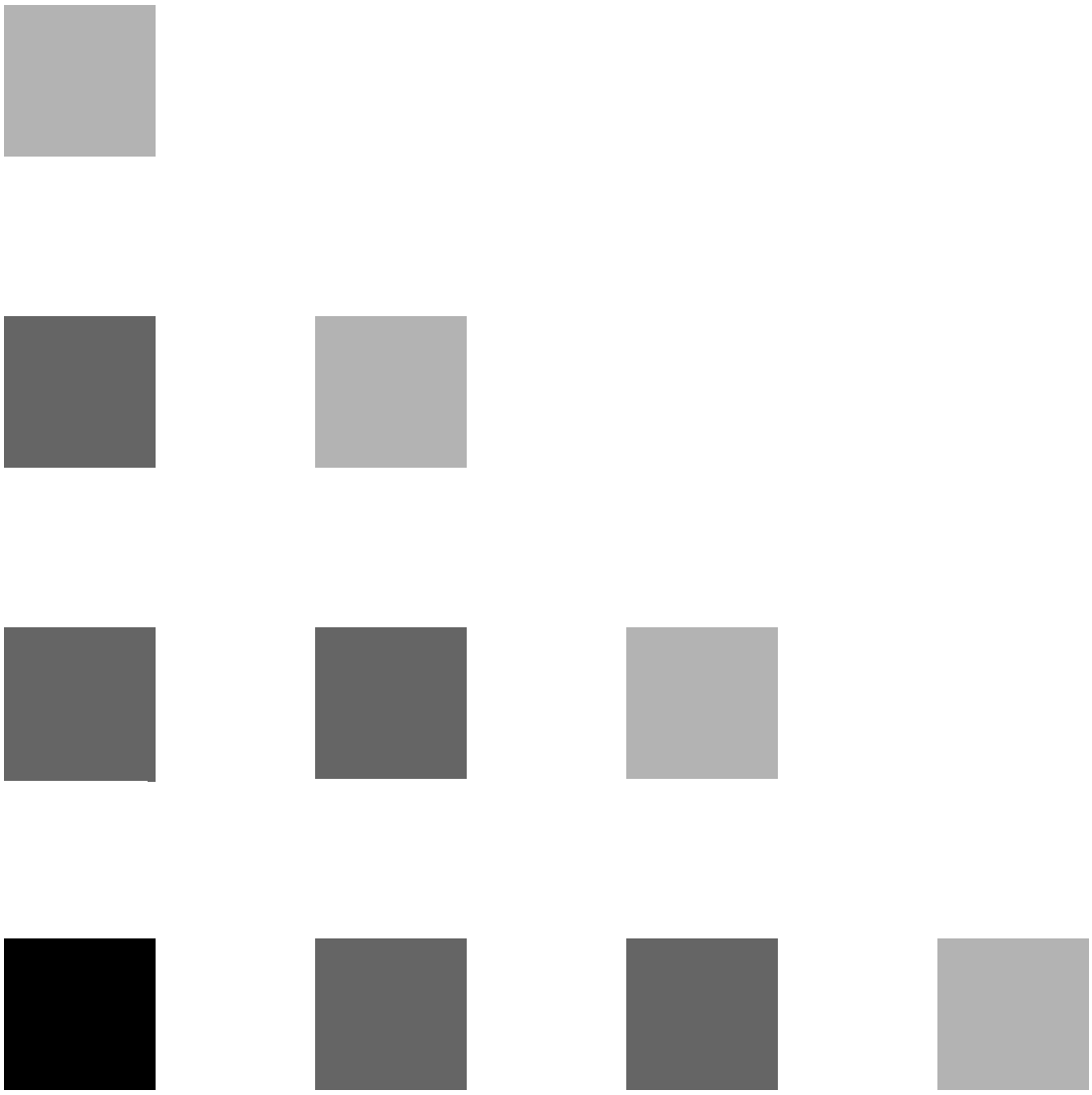
This page intentionally left blank.

# Tab Locator Page

## Remove this page and replace with tab divider.

# Tab Locator Page

## Remove this page and replace with tab divider.



# Index

This page intentionally left blank.

# Index

## About the Index

*References are to page numbers within chapters and appendices. The chapter or appendix is indicated in bold before the colon; the page number, after the colon.*

## Numerics

90/10 rule (for proprietary institutions) **4:**22

## A

Ability-to-Benefit provisions **5:**15
Academic year **6:**1 – **6:**7
  borrower-based academic year (BBAY) **6:**2 – **6:**7
  minimum length **6:**1
  scheduled academic year (SAY) **6:**2 – **6:**7
  transfer students **6:**4
Act, the.
  *See* Higher Education Act of 1965
ACTION Program deferment **11:**7
Administrative capability standards
  for schools **4:**24
  for third-party servicers of lenders **3:**20
Administrative forbearance **10:**9, **11:**4, **11:**34 – **11:**39
Aggregate loan limits. *See* Loan limits
Agreement to guarantee loans **3:**4, **15:**1 – **15:**2
Agreements between schools **4:**6, **10:**4
American Education Services (AES) (Pennsylvania Higher Education Assistance Agency)
  contact information **1:**5 – **1:**6
American Student Assistance (ASA)
  contact information **1:**7
  guarantor-specific information **C:**1
Annual fire safety report **4:**42 – **4:**43
Annual loan limits. *See* Loan limits
Annual security report **4:**40 – **4:**42
Application and promissory note
  as claim documentation **13:**4
  common errors made on **6:**55
  Consolidation loans **15:**7
  forwarding to lenders **6:**55
  guarantor processing of **6:**56
  lender processing of **7:**1 – **7:**4
  school certification of **6:**48 – **6:**57
Armed Forces deferment **11:**8
Assignment of loans
  electronically signed promissory note **3:**7
  in claim filing **13:**5
Audits
  audit guides **2:**12, **3:**24
  of lenders **3:**23 – **3:**24
  of schools **4:**52
  of third-party servicers of lenders **3:**24
Authorization requirements **8:**4 – **8:**6, **8:**21

## B

Bankruptcy
  administrative forbearance provisions **11:**34
  effect on borrower eligibility **5:**13
  effect on default aversion assistance requests **12:**20
  effect on loan disbursement **7:**17, **8:**18
  suspension of collection activities **12:**2, **13:**20
Bankruptcy claims **13:**20 – **13:**22
  dischargeability of loans **13:**20 – **13:**22
  dismissal or reversal of bankruptcy action **13:**22
  documentation requirements **13:**4 – **13:**5
  due diligence violations **14:**6
  proof of claim **13:**20
  timely filing **13:**21 – **13:**22, **14:**7
Blanket certificate of loan guarantee **3:**4
Borrower claims and defenses **3:**12
Borrower eligibility **5:**1 – **5:**3
  *See also* Student eligibility
  citizenship status **5:**4 – **5:**5
  correspondence courses **5:**16 – **5:**17, **6:**19
  credit evaluation for PLUS applicants **7:**1 – **7:**2
  Department of Justice data match **5:**8
  Department of Veterans Affairs data match **5:**8
  effect of drug conviction on **5:**13 – **5:**14
  effect of prior bankruptcy on **5:**13
  effect of prior disability discharge **5:**10 – **5:**11
  effect of prior fraud on **5:**13
  effect of prior write-off **5:**9
  for Consolidation loans **15:**3 – **15:**5
  for deferment **11:**1
  for PLUS loans **5:**1 – **5:**3, **7:**1 – **7:**2
  for Stafford loans **6:**49 – **6:**52
  foreign schools **5:**17
  multiple school enrollment **5:**18 – **5:**19
  NSLDS data match **5:**6 – **5:**8
  reduction by school **6:**52
  reinstatement of **5:**8 – **5:**9
  study-abroad programs **5:**17
  transfer students **5:**17 – **5:**18
Borrower-Based Academic Year (BBAY) **6:**2 – **6:**7

## C

CAM. *See* Common Account Maintenance (CAM)
Cancellation (of loan or loan disbursement) **8:**3
Capitalization **10:**21 – **10:**22
Certification of applications (by school) **2:**6, **6:**48 – **6:**57
  according to loan period **6:**8 – **6:**9
  by schools on reimbursement payment method **6:**48 – **6:**53
  Grad PLUS loans **6:**50
  Pell grant eligibility determination **6:**49
  refusal to certify **6:**52
  subsidized and unsubsidized Stafford loans **6:**49
Charges to borrowers **3:**13
Citizenship status **5:**4 – **5:**5

Claims **13:**1 – **13:**64
  amount purchased **13:**9 – **13:**10
    cured claims **13:**11
    eligible claims **13:**10
    request for increase **13:**11 – **13:**12
    returned claims **13:**10
  Claim Form **13:**1 – **13:**3
  confirmation of guarantor's receipt **13:**4
  cures **14:**10 – **14:**13
  documentation requirements **13:**4 – **13:**7
    missing documentation **13:**6, **14:**1
  due diligence gaps **14:**2, **14:**4 – **14:**5
    cure procedures **14:**11
  due diligence violations **14:**1 – **14:**7
    cure procedures **14:**11
  filing requirements **13:**1 – **13:**2
  interest-only claims **13:**14
  loss of guarantee **14:**1
  missing payment history
    cures **14:**12
  payments received after claim payment **13:**11
  recall of **13:**8 – **13:**9
  repurchase of (by lender) **13:**13 – **13:**14
  return of **13:**7
    refiling deadlines **13:**8, **14:**8 – **14:**10
    resuming repayment after **12:**24
  review of **13:**4
    program review status **13:**1
    standard review status **13:**1
  Supplemental Claim Form **13:**12
  timely filing
    cures **14:**12
    deadlines **13:**58
    violations/penalties **14:**3, **14:**7
  types
    bankruptcy claims **13:**20 – **13:**22
    closed school **13:**22 – **13:**29
    death claims **13:**29 – **13:**30
    false certification claims **13:**30 – **13:**38
    ineligible borrower claims **13:**15
    total and permanent disability **13:**48 – **13:**54
Clock-hour programs
  delivery of second and subsequent disbursements **8:**13 – **8:**14
  excused absences **6:**13
  payment periods **6:**12 – **6:**13
Closed school discharge/claims **13:**22 – **13:**29
  administrative forbearance **11:**34
  claim filing and payment **13:**27 – **13:**29, **14:**8
  denials **13:**28
  discharge of loans **13:**25
    defaulted loans **13:**25 – **13:**26
  documentation requirements **13:**5
  due diligence violations **14:**6
  effect on student/borrower eligibility **5:**7
  notification to borrowers **13:**25
  suspending collection activity **13:**24
Close-out procedures **4:**22
Code of conduct, school **4:**23 – **4:**24
  opportunity pool loans **4:**24
  preferred lender arrangement **4:**23 – **4:**24
Cohort default rates **16:**1 – **16:**16
  adjustments **16:**9 – **16:**10, **16:**13
  appeals **16:**9 – **16:**14
  calculation of **16:**3 – **16:**7
  challenging a draft rate **16:**8 – **16:**9
  Cohort Default Rate Guide **2:**12
  consequences of high rates **16:**14 – **16:**15
  Default Prevention and Management Division (ED) **D:**2
  draft rates **16:**8
  for lenders and holders **16:**15 – **16:**16
  TEACH grants **16:**3
Collection activities. *See* Due diligence
Collection costs **3:**13, **12:**4
Collection letters **12:**5, **12:**11
College Access Initiative **F:**1
College Assist
  contact information **1:**9
  guarantor-specific information **C:**1
Common Account Maintenance (CAM) **F:**1 – **F:**2
Common forms **2:**13 – **2:**14
  claim **2:**14, **13:**1 – **13:**3, **13:**12
  default aversion **2:**14, **12:**17, **12:**19
  deferment **2:**13, **11:**3
  loan discharge forgiveness **2:**14
  loan origination **2:**13
  return of Title IV funds **2:**13
Common Manual
  citations in **1:**1
  disclaimer **1:**2 – **1:**3
  organization of **1:**1 – **1:**2
  overview **1:**1
  use of **1:**2
Common Record: CommonLine (CRC) **F:**2
CommonLine **6:**56 – **6:**57, **F:**2
Confirmation process (for multi-year feature of MPN) **8:**2
Consolidation loans **2:**2, **15:**1 – **15:**17
  adding loans after consolidation **15:**5
  agreement to guarantee loans **15:**1 – **15:**2
  application and promissory note **15:**7
  application process **15:**6 – **15:**8
  borrower eligibility **15:**3 – **15:**5
  borrower information **15:**6
  certificate of comprehensive insurance coverage **15:**2
  deferment provisions **15:**14
  disbursement **15:**11
  effect on Stafford eligibility **6:**46
  interest benefits **15:**16
  interest payment rebate fee **15:**16 – **15:**17
  interest rates **15:**8 – **15:**10
  lender origination fee **15:**1
  lender participation **15:**1 – **15:**3
  loans eligible for consolidation **15:**4, **15:**5
  partial discharge of **13:**17 – **13:**19
  payment in full **15:**15
  repayment **15:**11 – **15:**15
    maximum repayment period **15:**12 – **15:**13
  reporting loans made **15:**2
  special allowance **15:**16
  verification certificates **15:**7 – **15:**8

Consolidation of defaulted loans **5:**7, **15:**5
Consumer information requirements **4:**35 – **4:**43
annual fire safety report **4:**42 – **4:**43
annual security report **4:**40 – **4:**42
Consummation of disbursements **7:**18 – **7:**19
Correspondence study
effect on student/borrower eligibility **5:**17
in-school period **10:**4
Cosigners. *See* Endorsers
Cost of attendance (COA) **6:**18 – **6:**19, **8:**18
Credit balances **8:**21 – **8:**24
Credit evaluation (PLUS loans) **7:**1 – **7:**2
Credit-hour programs
delivery of second and subsequent disbursements **8:**13
eligibility of **4:**19
loan amounts for **6:**47
modules **6:**10 – **6:**11, **6:**15 – **6:**16, **8:**17
payment periods **6:**11 – **6:**13
Cures **14:**10 – **14:**13
administrative forbearance **11:**35
amount purchased on claims **13:**11
inadvertent cures **14:**11
intensive collection activities (ICA)/location cure **14:**13 – **14:**14
missing payment history **14:**12
timely filing violations **14:**12

## D

Data matches **5:**3 – **5:**8
Data Transport Standard (DTS) **F:**3
Deactivation (of lenders) **A:**17
Deactivation of lenders **3:**14
Dear Colleague/Partner Letters (DCLs) **2:**11
Death claims **13:**29 – **13:**30
administrative forbearance **11:**35
documentation requirements **13:**4 – **13:**6
due diligence violations **14:**6
mandatory administrative forbearance **11:**40
payments after **13:**30
suspending collection **13:**29
timely filing **13:**30, **14:**8
Default aversion assistance **12:**16 – **12:**20
bankruptcy filing **12:**20
time frames **12:**6, **12:**11
Default claims **13:**14 – **13:**15
documentation requirements **13:**4 – **13:**5
filing time frames **12:**7, **12:**13, **13:**15, **14:**8
payments received after filing **13:**14
reporting to nationwide consumer reporting agencies **3:**16
special allowance payment on **12:**7
Defaulted loans
closed school discharge **13:**25 – **13:**26
deferment provisions **11:**4, **12:**2
forbearance on **11:**30
rehabilitation of **13:**15 – **13:**17
repurchase of **13:**13
Deferments **2:**10, **11:**1 – **11:**28
documentation requirements **11:**3
eligibility criteria **11:**1 – **11:**3, **11:**7
forms **2:**13
general information **11:**1 – **11:**7
new borrower categories **11:**3, **15:**14
on Consolidation loans **15:**14
on defaulted loans **11:**4, **12:**2
on delinquent loans **11:**4, **12:**2
on refinanced loans **B:**3
payments received during **10:**24
post-deferment grace period **11:**5
post-enrollment **11:**14
reporting requirements **11:**4
resuming repayment after **11:**5
types
ACTION Program **11:**7
Armed Forces **11:**8
economic hardship **11:**9 – **11:**10
graduate fellowship **11:**11 – **11:**12
in-school (or student) **11:**12 – **11:**14
internship/residency **11:**15
military service **11:**16 – **11:**17
NOAA **11:**18
parental leave **11:**18
Peace Corps **11:**19
post-active duty student **11:**19 – **11:**21
public health service **11:**21
rehabilitation training **11:**21 – **11:**23
summer bridge extension **11:**14, **11:**34
Tax-exempt organization volunteer **11:**23
teacher shortage area **11:**23 – **11:**24
temporary total disability **11:**24 – **11:**25
unemployment **11:**25 – **11:**27
working mother **11:**27 – **11:**28
Delinquency
*See also* Due diligence
administrative forbearance to resolve **11:**36
deferment during **11:**4, **12:**2
forbearance during **11:**30
payments received during **12:**3
reporting to nationwide consumer reporting agencies **3:**15
rolling delinquency **12:**3, **12:**6, **12:**12
special occurrence **12:**3, **12:**6, **12:**12
Delivery of loan proceeds (by school) **8:**1 – **8:**32
authorization requirements **8:**4 – **8:**6, **8:**21
by school on reimbursement payment method **6:**48 – **6:**53, **8:**11
conditional period **8:**10 – **8:**31
credit balances **8:**21 – **8:**24, **8:**29
credit-hour programs offered in modules **8:**17
delayed delivery **8:**15 – **8:**16
during leave of absence **8:**17, **8:**26
early delivery **8:**14
initial period **8:**10 – **8:**31
late delivery **8:**16 – **8:**17
methods **8:**19 – **8:**21
notification requirements **8:**2 – **8:**4
overview **2:**7
payment periods **6:**10 – **6:**13
requirements **8:**10 – **8:**31
return period **8:**11 – **8:**12, **8:**24 – **8:**27, **8:**29
transfer students **8:**19

when borrower files bankruptcy **8:**18
when school loses eligibility **8:**31 – **8:**32
when student transfers **7:**17
when verification required **8:**9
Department of Education. *See* U.S. Department of Education
Dependency status of students **6:**23 – **6:**25, **6:**37
Disasters
administrative forbearance **11:**37
mandatory administrative forbearance **11:**41
regulatory waivers in response to **2:**11
Disbursement **7:**12 – **7:**19
by electronic funds transfer (EFT) **7:**14
authorization requirements **8:**5
by master check **7:**14
authorization requirements **8:**5
cancellation of **7:**18, **8:**3
Consolidation loans **15:**11
consummated **7:**18 – **7:**19
delivery of loan proceeds (by school) **8:**1 – **8:**32
early disbursement for books and supplies **6:**16, **8:**4, **8:**14 – **8:**15
effect of bankruptcy on **7:**17
foreign schools **7:**15
late disbursement **7:**16
multiple disbursement requirement **6:**14, **7:**13
overview **2:**7
payment period **6:**10 – **6:**13, **8:**10
post-withdrawal **9:**19
reissues **7:**15 – **7:**16
scheduling by school **6:**13 – **6:**55
study-abroad programs **7:**14
time frames **7:**12
unconsummated **7:**18 – **7:**19
when school loses eligibility **8:**31 – **8:**32
when student transfers **7:**17
Discharge of loans **13:**17 – **13:**18
comakers **13:**18
Consolidation loan partial discharge **13:**17 – **13:**19
endorser **13:**18
forms **2:**14
payment of **13:**9
reporting to nationwide consumer reporting agencies **3:**15, **13:**18
Dispute of loan terms **10:**15
Distance education **5:**16, **6:**19
*See also* Correspondence study
Drug convictions **5:**13 – **5:**14
Due diligence **12:**1 – **12:**24
collection costs **3:**13, **12:**4
collection letters **12:**5 – **12:**13
default aversion assistance **12:**6, **12:**11, **12:**16 – **12:**20
bankruptcy filing **12:**20
Default Aversion Assistance Request Form **12:**17, **12:**19
endorser due diligence **12:**14
Fair Credit Reporting Act (FCRA) **12:**1
final demand letter **12:**6, **12:**12, **12:**20
gaps **14:**2, **14:**4 – **14:**5
cure procedures **14:**11
ineligible borrowers/loans **12:**15
reduced-payment forbearance **12:**5
required activities **12:**4 – **12:**16
less frequent than monthly repayment obligations **12:**8 – **12:**13
monthly repayment obligations **12:**5 – **12:**9
rolling delinquency **12:**6 – **12:**7, **12:**12 – **12:**13
schedules **12:**4 – **12:**13
skip tracing
address **12:**21 – **12:**23
telephone **12:**23 – **12:**24
special occurrence **12:**6 – **12:**7, **12:**12 – **12:**13
suspension of collection activities
bankruptcy **12:**2, **13:**20
closed school **13:**24
death **13:**29
false certification **13:**31, **13:**39
September 11, 2001 victims (discharge for spouses and parents of) **13:**47
Teacher Loan Forgiveness Program **13:**63
total and permanent disability discharge **13:**49
unpaid refund **13:**55 – **13:**56
telephone attempts **12:**5 – **12:**13, **12:**13 – **12:**14
violations **14:**1 – **14:**7
cure procedures **14:**11
when required **12:**2


## E


Economic hardship deferment **11:**9 – **11:**10
Educational Credit Management Corporation (ECMC)
contact information **1:**11 – **1:**13
Eligibility (borrowers and students). *See* Borrower eligibility; Student eligibility
Eligibility (institutional)
of insurance companies as lenders **3:**4
of lenders **3:**1 – **3:**5
of schools **4:**2 – **4:**22
of schools acting as lenders **3:**2, **3:**4
Emergency action **18:**3 – **18:**4
Endorsers **11:**2
due diligence requirements **12:**14
release of **12:**15
Enrollment
ad hoc reporting of changes **9:**5
lender processing and reporting of changes **10:**2 – **10:**3
loan period **6:**8 – **6:**9
reporting through NSLDS **9:**3 – **9:**5
requirements for student eligibility **5:**15 – **5:**16
status (full-time versus half-time) **6:**26 – **6:**27
verification of **10:**1 – **10:**3
Entrance counseling **4:**44 – **4:**46
Estimated financial assistance (EFA) **6:**21 – **6:**23
Excess interest rebates **10:**20, **A:**11 – **A:**13
Exit counseling **4:**46 – **4:**48
Expected family contribution (EFC) **6:**20, **6:**21
offsetting with TEACH grant **6:**20
overawards and **8:**9 – **8:**10
worksheets and tables **2:**12

## F


Fair Credit Reporting Act (FCRA) **12:**1
False certification discharge/claims **13:**30 – **13:**38
  administrative forbearance **11:**34 – **11:**35
  as a result of identity theft **13:**38 – **13:**42
  claim filing and payment **14:**8
  denials **13:**37
  discharge of loans **13:**33 – **13:**37
  documentation requirements **13:**5
  due diligence violations **14:**6
  effect on student/borrower eligibility **5:**7
  eligibility criteria **13:**32 – **13:**33
  suspension of collection activities **13:**31, **13:**39
Federal default fee **7:**19 – **7:**22
  refund of **7:**20 – **7:**22
Federal Family Education Loan Program (FFELP) **2:**1
  concurrent participation in Direct Lending **4:**5
  life of a loan overview **2:**2 – **2:**10
  loan types **2:**1 – **2:**2
  overview **2:**1
  resources for program participants **2:**11 – **2:**14
Federal Student Aid Handbook **2:**12
Federal Student Aid Information Center **D:**2
Final demand letter **12:**6, **12:**12, **12:**14, **12:**20
  ineligible borrowers/loans **12:**15
Finance Authority of Maine (FAME)
  contact information **1:**15
  guarantor-specific information **C:**1 – **C:**2
Financial aid administrators **4:**25
  professional judgment **6:**21
  responsibilities of **4:**25
  training standards **4:**26
Financial aid probation **8:**7 – **8:**8
Financial aid warning **8:**7 – **8:**8
Financial responsibility standards
  for schools **4:**27 – **4:**31
  for third-party servicers of lenders **3:**20 – **3:**22
Florida Department of Education, Office of Student Financial Assistance
  contact information **1:**17
  guarantor-specific information **C:**2
Forbearance **2:**10, **11:**28 – **11:**43
  administrative forbearance **11:**34 – **11:**39
  borrower contact during **11:**30
  discretionary forbearance **11:**39
  documentation requirements **11:**29
  length of **11:**29
  mandatory administrative forbearance **11:**40 – **11:**42
  mandatory forbearance **11:**42 – **11:**43
  of delinquent/defaulted loans **11:**30
  payment of interest during **11:**29
  payments received during **10:**24
  reduced payment **11:**40
  reduced-payment **12:**5
  reporting requirements **11:**29
  resuming repayment after **11:**31
  suspension of collection activities **12:**3
Foreign schools
  disbursement options **7:**15
  enrollment status reporting **9:**2
  exemption from verification requirements **6:**20
  regulatory requirements **4:**1
  student/borrower eligibility **5:**17
Forgiveness programs **13:**59 – **13:**70
  for civil legal assistance attorneys **13:**67 – **13:**69
  for service in areas of national need **13:**65 – **13:**66
  for teachers **13:**59 – **13:**64
  forms **2:**14
  under income-based repayment (IBR) schedule **13:**69 – **13:**70
Forms. *See* Common forms
Fraud
  effect on borrower eligibility **5:**13


## G


Gainful employment
  disclosures for prospective and enrolled students **4:**39
  reporting **4:**8, **4:**10
Georgia Higher Education Assistance Corporation
  contact information **1:**19
  guarantor-specific information **C:**3
Grace period **2:**8 – **2:**9, **10:**4 – **10:**6
  post-deferment **11:**5
Grad PLUS loans
  certification **6:**50
  eligibility requirements **5:**3
  entrance counseling requirements **4:**45
  loan limits **6:**39
Graduate and professional students
  Stafford loan limits **6:**30
Graduate fellowship deferment **11:**11 – **11:**12
Great Lakes Higher Education Guaranty Corporation
  contact information **1:**21
Guarantee fees. *See* Federal default fee
Guarantors
  application processing **6:**56
  blanket certificate of loan guarantee **3:**4
  College Access Initiative **F:**1
  guarantor identification numbers **1:**3
  Mapping Your Future **F:**3
  Ombudsman Caucus **F:**4


## H


Health profession students **6:**39 – **6:**41
High school diploma and equivalents **5:**14
Higher Education Act of 1965 **2:**11, **4:**1
  *See also* Common Manual: citations in
  how to obtain **2:**11


## I


Illinois Student Assistance Commission
  contact information **1:**23
  guarantor-specific information **C:**3
Income-based repayment (IBR) schedule **10:**17 – **10:**19
  loan forgiveness under **11:**36, **13:**69 – **13:**70

Independent students **6:**23 – **6:**25
Ineligible borrower claims **13:**15
  documentation requirements **13:**5
  due diligence violations **14:**6
  timely filing **14:**8
Ineligible borrowers/loans **5:**19 – **5:**21
  borrower error **3:**13, **5:**19
  due diligence requirements **12:**15
  lender error **5:**21
  return of loan funds **8:**25
  school error **5:**20
In-school deferment **10:**2, **11:**12 – **11:**14
In-school period **2:**8, **10:**4
Insurance companies as lenders **3:**4
Intensive collection activities (ICA)/location cure procedure **14:**13 – **14:**14
Interest **3:**13, **10:**19 – **10:**22
  capitalization of **10:**21 – **10:**22
  during grace period **10:**5
  excess interest rebates **10:**20
  payment of **10:**20
    during deferment **11:**4
    during forbearance **11:**29
Interest benefits **3:**15, **A:**1 – **A:**3
  amount payable **A:**1
  billing **A:**14 – **A:**17
  Consolidation loans **15:**16
Interest rates
  annual variable rate changes **10:**19
  for Consolidation loans **15:**8 – **15:**10
  for PLUS loans **7:**8 – **7:**9
  for SLS loans **7:**8 – **7:**9
  for Stafford loans **7:**5 – **7:**6
  reduced by lender **10:**20
  resolving discrepancies **7:**6
Interest subsidy on Stafford loans **10:**19
Interim period. *See* Grace period
Internship/residency deferment **11:**15
  mandatory forbearance **11:**42
Iowa College Student Aid Commission (ICSAC)
  contact information **1:**25
  guarantor-specific information **C:**3
  role in developing *Common Manual* **H:**15

## K

Kentucky Higher Education Assistance Authority
  contact information **1:**27
  guarantor-specific information **C:**4

## L

LaRS Report **A:**14 – **A:**17
  consistency with NSLDS data **A:**18
  deactivation for failure to submit **A:**17
  instructions **A:**14 – **A:**16
  LaRS External Users Guide **2:**12
Late disbursement **7:**16
Leave of absence **8:**26, **9:**6 – **9:**7
  delivery of loan proceeds **8:**17
Lender identification number (LID) **3:**4, **3:**15
Lender lists. *See* Preferred lender arrangement
Lender of Last Resort (LLR) programs **3:**22 – **3:**23
Lenders
  application processing **7:**1 – **7:**4
  approval for FFELP participation **3:**4
  audits **3:**23 – **3:**24
  blanket certificate of loan guarantee **3:**4
  charges to borrowers **3:**13
  deactivation of **3:**14, **A:**17
  disbursement of loans **7:**12 – **7:**19
  disclosure requirements **7:**10 – **7:**12
  due diligence requirements **12:**4 – **12:**16
  eligibility **3:**1 – **3:**5
  enrollment change processing and reporting **10:**2 – **10:**3
  exceptional performer designation **13:**1
  insurance companies acting as **3:**4
  LaRS Report **3:**14, **3:**15, **A:**14 – **A:**17
  lender fee **3:**14
  lender identification number (LID) **3:**4, **3:**15
  NSLDS reporting **3:**18
  permitted activities **3:**9 – **3:**10
  program reviews **17:**1 – **17:**6
  prohibited activities **3:**10 – **3:**12
  recordkeeping requirements **3:**6 – **3:**8
  reporting requirements **3:**13, **11:**29, **15:**2
    *See also* Reporting requirements (lenders)
  reporting to nationwide consumer reporting agencies **3:**15
  responding to borrower inquiries **10:**1, **11:**1
  responsibilities for FFELP participation **3:**5 – **3:**13
  sale of loans **3:**8 – **3:**9, **3:**16
  schools acting as **3:**4
  transfer of loans **3:**8 – **3:**9, **3:**16
  use of third-party servicers **3:**5, **3:**19 – **3:**22, **3:**24
Limitation of FFELP participation **18:**2, **18:**4 – **18:**6
  appeals **18:**4, **18:**6
  reasons for **18:**1
  removal of limitation **18:**6
Loan amounts **6:**28 – **6:**46
  adjustments by school after guarantee **6:**56
  cost of attendance (COA) **6:**18 – **6:**19
  estimated financial assistance (EFA) **6:**21 – **6:**23
  expected family contribution (EFC) **6:**20
  grade level **6:**27
Loan forgiveness **13:**59 – **13:**70
  civil legal assistance attorneys **13:**67 – **13:**69
  service in areas of national need **13:**65 – **13:**66
  teacher loan forgiveness **11:**41, **13:**59 – **13:**64
  under income-based repayment (IBR) **11:**36, **13:**69 – **13:**70
Loan guarantee **2:**7, **7:**11
  reinstatement of **14:**10 – **14:**11
  transfer of **3:**5
Loan limits **6:**28 – **6:**48
  exceeding of **5:**13
  for Grad PLUS loans **6:**39
  for health profession students **6:**39 – **6:**41
  for Stafford loans **6:**28 – **6:**46
  proration of **6:**42 – **6:**45
Loan period **6:**8 – **6:**9

Louisiana Student Financial Assistance Commission
contact information **1:**29
guarantor-specific information **C:**4
LS&T **18:**1 – **18:**7
*See also* Limitation of FFELP participation; Suspension of FFELP participation; Termination of FFELP participation

## M

Mandatory administrative forbearance **10:**12
Mapping Your Future **F:**3
Master Promissory Note **2:**6, **6:**53 – **6:**55
confirmation process for multi-year feature of **8:**2
electronically signed promissory note **3:**7
lender responsibilities under **7:**3 – **7:**12
transfer students **7:**4
Michigan Higher Education Assistance Authority
contact information **1:**31
Military mobilization
administrative forbearance **11:**37
mandatory administrative forbearance **11:**41
Military service deferment **11:**16 – **11:**17
Missouri Department of Higher Education (MDHE) Student Loan Program
contact information **1:**33
guarantor-specific information **C:**4
Modules (in credit-hour programs) **6:**10 – **6:**11, **6:**15 – **6:**16, **8:**17
Montana Guaranteed Student Loan Program (MGSLP)
contact information **1:**35
role in developing *Common Manual* **H:**15

## N

National Council of Higher Education Loan Programs (NCHELP)
Common Account Maintenance (CAM) standard **F:**1 – **F:**2
Common Record: CommonLine (CRC) **F:**2
CommonLine **F:**2
Ombudsman Caucus **F:**4
Program Operations Committee **F:**3
Program Regulations Committee **F:**4
National Student Loan Data System. *See* NSLDS
National Student Loan Program (NSLP)
contact information **1:**37
role in developing *Common Manual* **H:**15
Nationwide consumer reporting agencies **3:**15
notification of loan discharge **13:**18
NCHELP. *See* National Council of Higher Education Loan Programs (NCHELP)
New Hampshire Higher Education Assistance Foundation
contact information **1:**39
guarantor-specific information **C:**5
New Jersey Higher Education Student Assistance Authority
contact information **1:**41
guarantor-specific information **C:**5
New Mexico Student Loan Guarantee Corporation (NMSLGC)
contact information **1:**43
guarantor-specific information **C:**5
New York State Higher Education Services Corporation
contact information **1:**45
guarantor-specific information **C:**6
NOAA deferment **11:**18
North Carolina State Education Assistance Authority
contact information **1:**47
Northwest Education Loan Association (NELA)
contact information **1:**49
role in developing *Common Manual* **H:**15
NSLDS
consistency with LaRS Report data **A:**18
customer service center **D:**2
data match for eligibility **5:**6 – **5:**8
enrollment reporting **9:**3 – **9:**5
lender reporting **3:**18

## O

Oklahoma College Assistance Program
contact information **1:**51 – **1:**52
Ombudsman
contact information **D:**3
Ombudsman Caucus **F:**4
Opportunity pool loans **4:**24
Oregon Student Assistance Commission
role in developing *Common Manual* **H:**15
Origination fees **3:**13, **3:**14, **7:**22 – **7:**23
deduction of **7:**22
discounting **3:**14
payment and reporting of **3:**13 – **3:**15
refund of **7:**23
reporting of **7:**22
Origination of loans **2:**6 – **2:**7
forms **2:**13
Overawards **8:**9 – **8:**10
prevention of **6:**49

## P

Paid-in-full loans **10:**26
Consolidation loans **15:**15
reporting requirements **3:**18
Parental leave deferment **11:**18
Payment period **6:**10 – **6:**13, **8:**10
delivery of second and subsequent disbursements **8:**13
Payments
after claim payment **13:**11
after default **13:**14
application of **10:**23 – **10:**25
changing due date **10:**24
interest-only **12:**5
minimum payment amount **10:**11 – **10:**12
on delinquent loans **12:**3
payment in full **3:**18
prepayments **10:**23 – **10:**24
received during deferment or forbearance **10:**24
Peace Corps deferment **11:**19

PLUS loans **2:**2
borrower eligibility **5:**1, **5:**3, **6:**50 – **6:**51
conversion to repayment **10:**6
credit evaluation **7:**1 – **7:**2
disclosure requirements **7:**10 – **7:**12
first payment due date **10:**7
interest rates **7:**8 – **7:**9
post-enrollment deferment **11:**14
refinancing **B:**1 – **B:**3
relationship to unsubsidized Stafford eligibility **6:**51
repayment notification **10:**12 – **10:**15
student eligibility **5:**2 – **5:**3, **6:**50 – **6:**51
Post-active duty student deferment **11:**19 – **11:**21
Post-deferment grace period **11:**5
Post-enrollment deferment **11:**14
Post-withdrawal disbursement **9:**19
Preferred lender arrangement **4:**33 – **4:**35
lender reporting requirements **3:**19
school code of conduct **4:**23 – **4:**24
Preparatory coursework **5:**16, **6:**29
Prepayments **10:**23 – **10:**24
Private education loan information **4:**48 – **4:**49
Professional judgment **5:**13, **6:**19, **6:**21
Program reviews **17:**1 – **17:**6
common findings **17:**5 – **17:**6
documentation reviewed in **17:**4 – **17:**5
lender/servicer selection criteria **17:**2
school selection criteria **17:**2
Proration of loan limits **6:**42 – **6:**45
Public health service deferment **11:**21

## Q

Quality Assurance Program (QAP) **4:**52, **6:**20

## R

Reaffirmation
of loan discharged in bankruptcy **5:**13
of write-offs **5:**9
Recalls. *See* Claims
recall of
Recordkeeping requirements
for lenders **3:**6 – **3:**8
for schools **4:**49 – **4:**51
Reduced-payment forbearance **11:**40, **12:**5
Refinancing of PLUS and SLS loans **3:**13, **B:**1 – **B:**3
Refunds **8:**26
application of **10:**25
federal default fee **7:**20 – **7:**22
origination fees **7:**23
school processing of **9:**20 – **9:**22
unpaid **9:**22, **13:**55 – **13:**57
Regulations **2:**11, **4:**1
*See also* Common Manual: citations in
how to obtain **2:**11
waivers of (for disasters) **2:**11
Rehabilitation of defaulted loans **5:**7, **13:**15 – **13:**17
Rehabilitation training deferment **11:**21 – **11:**23
Reimbursement payment method **6:**48, **8:**1, **8:**11
Reinstatement of eligibility **5:**8 – **5:**9
Reissues **7:**15 – **7:**16
Repayment
alignment of Stafford and SLS loans **10:**6, **10:**7
administrative forbearance provisions **11:**37
changing payment due date **10:**24
disclosure **10:**2, **10:**9, **10:**13
first payment due date **10:**6 – **10:**9
late notification **10:**7
length of repayment period **10:**10
minimum payment amount **10:**11 – **10:**12
new out-of-school date after conversion **10:**8 – **10:**9
notification requirements **10:**12 – **10:**15
of Consolidation loans **15:**11 – **15:**15
overview **2:**9 – **2:**10
payment in full **10:**26
repayment schedules
extended **10:**19
graduated **10:**16
income-based **10:**17 – **10:**19
income-sensitive **10:**16
standard **10:**16
resuming after deferment **11:**5
resuming repayment after forbearance **11:**31, **12:**24
terms **10:**10 – **10:**15
adjustment of **10:**12
Reporting requirements (lenders) **3:**13 – **3:**18
LaRS Report **3:**14, **3:**15
loan sale or transfer **3:**16
nationwide consumer reporting agencies **3:**15
NSLDS reporting **3:**18
origination fees **3:**13 – **3:**15
paid-in-full loans **3:**18
preferred lender arrangement **3:**19
SSN changes **3:**17
status reporting **3:**16
Reporting requirements (schools)
SSN changes **9:**1 – **9:**2
Repurchase of claims **13:**13 – **13:**14
Return of loan proceeds by school **8:**24 – **8:**26, **8:**29
Return of Title IV funds **9:**13 – **9:**22
amounts **9:**14 – **9:**20
worksheets **2:**13
Rhode Island Higher Education Assistance Authority
contact information **1:**53
Rolling delinquency **12:**3, **12:**6, **12:**12, **12:**14

## S

Sale of loans **3:**8 – **3:**9
administrative forbearance **11:**37
reporting requirements **3:**16
Satisfactory academic progress **8:**7 – **8:**9
Scheduled Academic Year (SAY) **6:**6
Schools
acting as lenders **3:**2, **3:**4
adjusting loan amounts after guarantee **6:**56
administrative capability standards **4:**24

agreements between schools **4:**6
annual fire safety report **4:**42 – **4:**43
annual security report **4:**40 – **4:**42
audits **4:**27 – **4:**29
authorization requirements **8:**4 – **8:**6
certification of application and promissory note **6:**48 – **6:**57
code of conduct **4:**23 – **4:**24
consumer information requirements **4:**35 – **4:**43
disbursement scheduling **6:**13 – **6:**15
eligibility **4:**2 – **4:**22
90/10 rule for proprietary institutions **4:**22
change in ownership or status **4:**8
loss of **4:**21 – **4:**22
new/modified programs **4:**10
of credit-hour programs **4:**19
of locations/campuses **4:**20
of programs **4:**11 – **4:**20
Eligible Lender Trustee (ELT) relationships **3:**3
enrollment verification **10:**1 – **10:**3
entrance counseling **4:**44 – **4:**46
exit counseling **4:**46 – **4:**48
financial responsibility standards **4:**27 – **4:**31
financial statements **4:**27 – **4:**29
foreign schools **4:**1
gainful employment
disclosures for prospective and enrolled students **4:**39
reporting **4:**8, **4:**10
information sharing **9:**6
managing loan funds **8:**1
notification requirements **8:**2 – **8:**4
NSLDS enrollment reporting **9:**3 – **9:**5
opportunity pool loans **4:**24
permissible incentive compensation **4:**5 – **4:**6
preferred lender arrangement **4:**33 – **4:**35
private education loan information **4:**48 – **4:**49
program reviews **17:**1 – **17:**6
recordkeeping requirements **4:**49 – **4:**51
reduction of borrower eligibility **6:**52
refusal to certify application **6:**52
reporting requirements **4:**7, **9:**5
return of Title IV funds **9:**14 – **9:**20
satisfactory academic progress **8:**7 – **8:**9
SSN change reporting **9:**1 – **9:**2
state authorization **4:**1 – **4:**2
student information requirements **4:**33 – **4:**43
student status reporting **9:**2 – **9:**6
use of third-party servicers **4:**51
withdrawal date determination **9:**7 – **9:**13
Selective Service registration **5:**2, **5:**6
September 11, 2001 victims (discharge for spouses and parents of) **13:**42 – **13:**48
administrative forbearance **11:**38
claim payment amount **13:**48
denials **13:**47
documentation requirements **13:**44 – **13:**46
due diligence violations **14:**6
eligibility requirements **13:**42 – **13:**44
limitations **13:**46 – **13:**47
suspending collections **13:**47
Skip tracing
address **12:**21 – **12:**23
due diligence violations **14:**5
telephone **12:**23 – **12:**24
due diligence violations **14:**5
SLS loans **2:**2, **4:**1
aligning repayment with Stafford loans **10:**6, **10:**7
administrative forbearance provisions **11:**37
conversion to repayment **10:**6
first payment due date **10:**7
interest rates **7:**8 – **7:**9
refinancing **B:**1 – **B:**3
repayment notification **10:**12 – **10:**15
Social Security numbers
changes **3:**17, **9:**1 – **9:**2
data matches **5:**5
discrepancies **9:**1 – **9:**2
South Carolina Student Loan Corporation
contact information **1:**55
Special allowance **3:**15, **A:**4 – **A:**13
amount payable **A:**4 – **A:**14
billing **A:**14 – **A:**17
Consolidation loans **15:**16
formulas **A:**8 – **A:**10
on defaulted loans **12:**7
termination of **A:**13
Special occurrence **12:**3, **12:**6, **12:**12
SSCR. *See* NSLDS
enrollment reporting
Stafford loans
conversion to repayment **10:**5
disclosure requirements **7:**10 – **7:**12
eligibility for **6:**46, **6:**49 – **6:**52
entrance/exit counseling **4:**44 – **4:**48
first payment due date **10:**6 – **10:**7
grace period **10:**4 – **10:**6
interest rates **7:**5 – **7:**6
loan amounts **6:**28 – **6:**46
loan limits **6:**28 – **6:**46
for health profession students **6:**39 – **6:**41
proration of **6:**42 – **6:**45
nonsubsidized **6:**48
repayment notification **10:**12 – **10:**15
subsidized **2:**1, **6:**47, **10:**5
unsubsidized **2:**1, **6:**48
additional eligibility for **6:**51
relationship to PLUS eligibility **6:**51
State authorization **4:**1 – **4:**2
Statement of educational purpose **5:**2
Status reporting
foreign schools **9:**2
lender requirements **3:**16
school requirements **9:**2 – **9:**6
NSLDS enrollment reporting **9:**3 – **9:**5

Student eligibility **5:**1 – **5:**3
*See also* Borrower eligibility
ability-to-benefit provisions **5:**13
citizenship status **5:**4 – **5:**5
correspondence courses **5:**16 – **5:**17, **6:**19
Department of Justice data match **5:**8
Department of Veterans Affairs data match **5:**8
dependency status **6:**23 – **6:**25, **6:**37
effect of drug conviction on **5:**13 – **5:**14
enrollment requirements **5:**15 – **5:**16
enrollment status **6:**26 – **6:**27
for Stafford loans **6:**49 – **6:**52
foreign schools **5:**17
multiple school enrollment **5:**18 – **5:**19
NSLDS data match **5:**6 – **5:**8
satisfactory academic progress **8:**7 – **8:**9
Selective Service registration requirement **5:**2, **5:**6
study-abroad programs **5:**17
transfer students **5:**17 – **5:**18
use of data matches to confirm **5:**3 – **5:**8
verification requirements **6:**20
Student Loan Guarantee Foundation of Arkansas (SLGFA)
contact information **1:**57
Student Loans of North Dakota (SLND)
contact information **1:**59
Students
information schools must provide to **4:**33 – **4:**48
Study-abroad programs **5:**17
disbursement options **7:**14
Summer bridge extension **10:**4, **11:**14, **11:**34
Suspension of FFELP participation **18:**2, **18:**4 – **18:**6
appeals **18:**4, **18:**6
reasons for **18:**1, **18:**2

## T

Tax-exempt organization volunteer deferment **11:**23
TEACH grant
exclusion from cohort default rates **16:**3
inclusion in estimated financial assistance (EFA) **6:**22
inclusion in return of Title IV funds **9:**17
offsetting expected family contribution (EFC) **6:**20
Teacher certification or recertification **5:**16, **6:**29
Teacher Loan Forgiveness Program **13:**59 – **13:**64
amounts **13:**61
eligibility criteria **13:**59 – **13:**63
mandatory administrative forbearance **11:**41
suspending collection **13:**63
Teacher shortage area deferment **11:**23 – **11:**24
Temporary total disability deferment **11:**24 – **11:**25
Tennessee Student Assistance Corporation
contact information **1:**61
Termination of FFELP participation **18:**3, **18:**4 – **18:**6
appeals **18:**4, **18:**6
reasons for **18:**1
reinstatement after **18:**7
Testing 1-2-3 **3:**1
TG
contact information **1:**63 – **1:**64
role in developing *Common Manual* **H:**15
Third-party servicers
exceptional performer designation **13:**1
Third-party servicers (for lenders) **3:**5, **3:**19 – **3:**22
administrative capability **3:**20
audits **3:**24
financial responsibility **3:**20 – **3:**22
Third-party servicers (for schools) **4:**24, **4:**51
Total and permanent disability discharge/claims **13:**48 – **13:**54
administrative forbearance provisions **11:**38
certification of disability **13:**50
conditional discharge **13:**51 – **13:**53
documentation requirements **13:**4 – **13:**6
due diligence violations **14:**6
effect on borrower eligibility **5:**10 – **5:**11
payments after **13:**54
suspending collection **13:**49
timely filing **13:**54, **14:**8
Transfer of loans **3:**8 – **3:**9
administrative forbearance **11:**37
loan guarantee transfers **3:**5
reporting requirements **3:**16
Transfer students
academic year **6:**4
delivery of loan proceeds to **8:**19
eligibility requirements **5:**17 – **5:**18
master promissory note **7:**4

## U

U.S. Department of Education
exceptional performer designations **13:**1
lender identification number (LID) **3:**4, **3:**15
publications of **2:**12
*See also* Federal Family Education Loan Program (FFELP): resources for program participants
Unemployment deferment **11:**25 – **11:**27
United Student Aid Funds, Inc. (USA Funds)
contact information **1:**65 – **1:**66
guarantor-specific information **C:**6
role in developing *Common Manual* **H:**15
Unpaid refund discharge **13:**55 – **13:**57
administrative forbearance **11:**39
denials **13:**56
documentation requirements **13:**5
suspending collection **13:**55 – **13:**56
Unpaid refunds **9:**22
Utah Higher Education Assistance Authority (UHEAA)
contact information **1:**67

## V

Verification certificates **15:**7 – **15:**8
Verification requirements **6:**20
Application and Verification Guide **2:**12
Vermont Student Assistance Corporation (VSAC)
contact information **1:**69
Veterans' education benefits **6:**22

## W

Withdrawal **8:**26
  date of **9:**7 – **9:**13
Working mother deferment **11:**27 – **11:**28
Write-offs
  effect on borrower eligibility **5:**9
  reaffirmation of **5:**9

This page intentionally left blank.