COMMON MANUAL

Unified Student Loan Policy

Policy Changes Approved April 16, 2009

Batch 159: Proposals 1092, 1095, 1118-1120, 1122, 1124-1126, 1128-1134

The nation's guarantors provide the following summaries to inform schools, lenders, and servicers of the latest *Common Manual* policy changes. These changes will appear in the manual's next annual update. These changes will also be incorporated into the *Integrated Common Manual.* The *Integrated Common Manual* is available on several guarantor websites, and it is also available on *Common Manual's* website at **www.commonmanual.org**. Please carefully note the effective date of each policy change.

Academic Year Categories for the Purpose of Determining the Frequency of Stafford Annual Loan Limits

The *Common Manual* has been updated to include guidance from the FSA Handbook concerning the use of a scheduled academic year (SAY) and a borrower-based academic year (BBAY) for the purpose of determining Stafford annual loan limit frequency in all types of programs.

An SAY 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. For a standard term-based credit-hour program, the 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 2 or more nonstandard terms in the 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.

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 program, a non-term-based credit-hour program, or a credit-hour program with nonstandard terms that are not SE9W.

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). A school may consistently designate the summer term as either a header or trailer with no exceptions. Provided there is no overlap in academic years, a school may also choose to consistently designate the summer term as either a header or trailer with some exceptions (e.g., for different programs or for individual students), or make all decisions regarding the use of the summer term as a header or trailer on a case-by-case basis.

The Stafford annual loan limits apply 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.

Credit-Hour Programs with 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 Stafford 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. For example, if the SAY includes three quarter terms (fall, winter, and spring), a BBAY would consist of any three consecutive terms. 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. 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 ineligible to receive, or receive the benefit of, a loan for that initial term. Mini-sessions (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 Stafford 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.

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.

Credit-Hour Programs with 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. The BBAY for programs that are not offered in an SAY must always include enough consecutive terms to meet the program's Title IV academic year requirements in 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 ineligible to receive, or receive the benefit of, a loan for that initial term. Mini-sessions (summer or otherwise) must be combined and treated as a single standard term.

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.

Clock-Hour Programs, Non-Term-Based Credit-Hour Programs, and Nonstandard Term-Based Credit-Hour Programs with Terms That Are Not SE9W: Using BBAY3

For a clock-hour program, a non-term-based credit-hour program, and a nonstandard term-based program with 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 school must use BBAY3. A school must also use BBAY3 for 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 new Stafford annual loan limits. A student's enrollment status may affect how soon the student regains eligibility for new 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.

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. 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 successfully completed (i.e., passed) the number of clock or credit hours and completed 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 complete the 26 weeks of instructional time in the program's academic year before a the student gains eligibility to receive another loan for a new BBAY.

Figure 6-2, "Frequency of Stafford Annual Loan Limits," has been updated with corresponding changes.

Appendix G includes new a new definition of "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.

The existing glossary definition of the acronym "BBAY" has been expanded to include references to "BBAY1," "BBAY2,", and "BBAY3," all of which are cross-referenced to the glossary definition of "Borrower-Based Academic Year." The glossary definition of "Borrower-Based Academic Year" has been expanded to include separate, high-level definitions of "BBAY1," "BBAY2," and "BBAY3," with a cross-reference for additional information to Subsection 6.1.B and the 08-09 FSA Handbook, Volume 3, Chapter 5.

Affected Sections:	6.1.B	Academic Year Categories
	Figure 6-2	Frequency of Stafford Annual Loan Limits
	Appendix G	
Effective Date:	Publication date of Volume 3 of the 08-09 FSA Handbook, unless implemented by the school on or after November 1, 2007.	
Basis:	08-09 FSA Handbook, Volume 3, Chapter 5, pp. 3-80 to 3-85.	
Policy Information:	1092/159	
Guarantor Comments:	None.	

Proration of Stafford Annual Loan Limits

The *Common Manual* has been updated with several new and existing clarifications found in the FSA Handbook concerning prorating the Stafford annual loan limits.

A school must calculate prorated, i.e., reduced, Stafford annual loan limits when the school knows *in advance* that an undergraduate 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 minimum for an academic year, the borrower is completing 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 (i.e., no term in the loan period is more than two weeks of instructional time longer than any other term) *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 covered by the program's academic year. For a program that uses a scheduled academic year (SAY), the number of terms covered in the school's academic year does not include a summer term that is designated as a header or trailer.

- 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 for a program that is longer than the statutory minimum in credit or clock hours, or weeks of instructional time (see Section 6.1). For such a program, the school uses 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.

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 than 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 four 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 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.

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.

- 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).

  - In preparatory coursework necessary for admission into either an undergraduate or a graduate program of study (see Subsection 6.11.A).

- At least half time but less than full time.

- For a period of less than a full academic year that is not a final period of study.

- 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 this 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.

- 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.

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 limit for the occasional borrower who successfully completes the program in less than 26 weeks.

"Self-paced" is defined as 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, begin courses either on specific dates set by the school or at any time without a defined schedule for completing the program.

Affected Sections: 6.11.F Prorated Loan Limits
Appendix G

Effective Date: Publication date of Volume 3 of the 08-09 FSA Handbook for the following in a credit-hour program that uses nonstandard terms that are substantially equal and at least nine instructional weeks in length (SE9W):

- Determining the final period of study for an undergraduate borrower.
- Exempting from proration 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.

Publication date of Volume 3 of the 07-08 FSA Handbook for exempting from proration an undergraduate borrower who is enrolled in a standard term-based credit-hour program and 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.

Publication date of Volume 3 of the 05-06 FSA Handbook for 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.

Publication date of Volume 3 of the 04-05 FSA Handbook for using the school's academic year for the program to determine whether a final period of study is shorter than an academic year.

Basis:	08-09 FSA Handbook, Volume 3, Chapter 5, p. 3-100; 08-09 FSA Handbook, Volume 4, Chapter 2, p. 4-45; 07-08 FSA Handbook, Volume 3, Chapter 5, p. 3-95; 05-06 FSA Handbook, Volume 3, Chapter 4, pp. 3-80 and 3-83; 04-05 FSA Handbook, Volume 3, Chapter 4, p. 3-67.
Policy Information:	1095/159
Guarantor Comments:	None.

FFELP Teacher Loan Forgiveness Request

The *Common Manual* has been revised by adding text describing the use of the National Council of Higher Education Loan Program's (NCHELP) FFELP Teacher Loan Forgiveness Request form. A lender may use the form to request payment for all or a portion of the balance on a Stafford loan or a Consolidation loan with an eligible underlying Stafford loan(s) that is eligible for discharge due to teacher loan forgiveness. A new figure has been added to the Manual that will help a lender determine what loan information must be provided on this form. Detailed descriptions of the items included in this figure are located in the Instructions for Completing the FFELP Teacher Loan Forgiveness Request form.

Affected Sections:	2.3.C	Common Forms
	13.9.B	Teacher Loan Forgiveness Program
Effective Date:	Lenders may have begun using the FFELP Teacher Loan Forgiveness Request form upon the applicable publication date.	
Basis:	None.	
Policy Information:	1118/159	
Guarantor Comments:	None.	

Income-Based Repayment Option

The Manual was revised to include the income-based repayment (IBR) plan and loan forgiveness under IBR.

Eligibility

Beginning on July 1, 2009, a borrower may request to repay an eligible loan under an 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 if the borrower has a partial financial hardship (PFH) for the initial year and annually for each subsequent year that the borrower selects IBR. A PFH exists if the borrower has an annual payment amount, calculated under a standard repayment schedule and based on a 10-year repayment period on all eligible FFELP and Direct loans outstanding when the borrower initially entered repayment on each loan (a.k.a. *standard-standard*), that exceeds 15% of the difference between the borrower's adjusted gross income and 150% of the U.S. Department of Health and Human Services (DHHS) poverty guideline for the borrower's family size.

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 applicable family size. The result is divided by 12 to obtain the monthly payment amount. If the lender does not hold all of the borrower's eligible loans, the borrower's monthly loan payment 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 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 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.

Applying Payments and Prepayments
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. Under IBR, a borrower may have a scheduled monthly payment amount of $0. 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 $0 pays an amount greater than $0, 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 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.

Any prepayment is applied in the same order, i.e. first to accrued interest, then to collection costs and late charges, and finally to outstanding principal. 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.

Federal Interest Benefits
Under IBR, 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. If the borrower's scheduled monthly PFH payment amount under the income-based repayment (IBR) plan is not sufficient to pay the accruing interest on a subsidized Stafford loan or the subsidized portion of a Consolidation loan, the Department pays the accrued interest, that exceeds the scheduled monthly PFH payment amount, during a consecutive 3-year period that begins with 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. Federal interest benefits end on the earlier of the date that the borrower's monthly payment amount under IBR is sufficient to pay the accrued interest on the borrower's loan or the qualifying portion of the borrower's Consolidation loan or the end of the consecutive 3-year period.

Payment Amount Recalculations
If a borrower ceases to have a PFH, chooses not to make PFH payments but remains in IBR, or fails to renew or withdraws consent for income verification, the lender must recalculate monthly payments. To recalculate the borrower's monthly payment amount, 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 the 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.

Loan Forgiveness

To be eligible for loan forgiveness after 25 years, the borrower must have participated in the IBR plan and 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 zero 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.

The beginning date for the 25-year repayment period for forgiveness for a borrower with 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 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 (see subsection below) for which the borrower qualified or re-qualified for IBR.

Administrative Forbearance

The lender may grant a forbearance for a period not to exceed 60 days in order to collect and process documentation supporting a borrower's eligibility for loan forgiveness under IBR. 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.

Requirements Pertaining to Request for Payment

The lender must request payment from the guarantor not later than 60 days after determining 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.

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.

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. After the loan(s) has been forgiven, the lender must promptly return any loan payment(s) to the sender.

When Forgiveness is Denied

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.

Special Allowance Payments

Special allowance is payable on loans in repayment under IBR. In addition to a special allowance payment determined by the average daily balance of principal and capitalized interest on the loan, 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 PFH as determined under IBR. The applicable interest rate for unpaid accrued interest on a loan subject to IBR is zero.

Rehabilitated Loans and IBR

A lender must permit the borrower of a rehabilitated loan to choose any repayment schedule in statute, including IBR. If a borrower was repaying under IBR before default and if the borrower qualifies for partial financial hardship after rehabilitation, the rehabilitated loan may return to IBR and would resume the 25-year period but only pre-default payments plus the payments made after rehabilitation are considered qualifying payments toward IBR forgiveness. 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 repayment period for loan forgiveness.

Definitions

In addition to a definition for the "Income-Based Repayment Schedule" and for "Partial Financial Hardship," the following definitions are added to Appendix G:

Expedited-Standard: The repayment schedule available to a borrower who chooses to leave the Income-Based Repayment 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.

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.

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.

Figure 11-2, "Forbearance Eligibility Chart," has also been updated to include IBR.

Affected Sections:	2.1.B	Types of Loans Available
	4.4.D	Exit Counseling
	6.14.A	Subsidized Stafford Loans
	7.6.B	Income-Sensitive Repayment Disclosure Requirements
	10.6.B	Length of the Repayment Period
	10.6.D	Minimum Payment Requirements
	10.8	Establishing a Repayment Schedule
	10.8.A	Standard Repayment Schedule
	10.8.D	Extended Repayment Schedule
	10.9	Interest Charges
	10.10.B	Capitalization Frequency
	10.11.A	Applying Regular Borrower Payments
	10.11.B	Applying Prepayments
	11.21.J	Late Notification of Out-of-School Dates
	Figure11-2	Forbearance Eligibility Chart
	12.4.A	Due Diligence Requirements for Loans with Monthly Repayment Obligations
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	15.5	Repayment
	15.5.F	Delinquency, Claim Filing, Loan Forgiveness, and Discharge
	15.6	Interest Benefits and Special Allowance
	A.1.B	When Federal Interest Benefits Will Be Paid
	A.2.A	Special Allowance and Excess Interest Rates
	Appendix G	
Effective Date:	The provisions of the income-based repayment (IBR) plan are effective July 1, 2009. IBR loan forgiveness may not occur prior to July 1, 2034.	
Basis:	§682.205(h)**;** §682.209(a) and (b);§682.215;§682.300(b); §682.302(a); §682.304(d)(2); §682.411(d)(1); §682.604(g)(2); and the *Federal Register*, Vol. 72 No. 206, October 23, 2008, pp. 63236 - 63240.	
Policy Information:	1119/159	
Guarantor Comments:	None.	

Rebuttable Presumption

The *Common Manual* has been revised by including the use of rebuttable presumption in any action to limit, suspend, or terminate a lender's eligibility to participate in the FFELP, if the Department, its designee, or a Hearing Officer finds that a lender violated the inducement provisions through payments or activities 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.

Affected Sections:	3.4.C	Permitted and Prohibited Activities
	18.1	Actions to Limit, Suspend, or Terminate Participation
Effective Date:	Effective for administrative actions against lenders on or after July 1, 2008.	
Basis:	§682.705(c); §682.706(d).	
Policy Information:	1120/159	

Guarantor Comments: None.

Program Participation Agreement
The *Common Manual* has been revised to include the changes made by the Higher Education Opportunity Act (HEOA), P.L. 110-315 relating to the agreements in a school's Program Participation Agreement (PPA). The updated PPA requires that a school may not request or accept funds from a lender for private education loans, including funds for opportunity pool loans, in exchange for FFELP loan volume or a preferred lender arrangement. The updated PPA also requires a school to develop, publish, administer, and enforce a code of conduct.

A school code of conduct must prohibit school officers, employees and agents from:

- Entering into revenue-sharing arrangements.
- Receiving certain gifts.
- Accepting certain compensation.
- Assigning a lender to a first-time borrower.
- Delaying or refusing to certify a loan based on the borrower's choice of lender or guarantor.
- Requesting or accepting funds from a lender for private education loans in exchange for promises or concessions.
- Requesting or accepting certain staffing assistance from a lender.
- Receiving anything of value for service on any advisory board, commission, or group established by a lender or guarantor, except for reimbursement of certain reasonable expenses.

Finally, the Glossary has been updated with the addition of the terms "institutional-affiliated organization," "opportunity pool loans," and "preferred lender arrangement."

Affected Sections:	4.1.A Establishing Eligibility Appendix G
Effective Date:	School participating in a Title IV loan program on or after August 14, 2008.
Basis:	HEA §151(5), §487(a)(25), and §487(e), as amended by the Higher Education Opportunity Act (HEOA), P.L. 110-315; DCL GEN-08-12/FP-08-10.
Policy Information:	1122/159
Guarantor Comments:	None.

Ability to Benefit
The *Common Manual* has been revised to incorporate a provision of the Higher Education Opportunity Act (HEOA) that expands the methods by which a student may demonstrate an ability to benefit from a postsecondary program of study and updates the definitions in the glossary pertaining to ability to benefit. As an alternative to passing a Department-approved ability-to-benefit test, the new provision allows 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. A student who completes those hours or their equivalent becomes eligible for Title IV aid. A student is not eligible for Title IV aid while earning the six credit hours or their equivalent.

Affected Sections:	5.9 Required High School Diploma or Equivalent 5.10 Ability-to-Benefit Provisions Appendix G
Effective Date:	Awards of Title IV aid made on or after August 14, 2008.
Basis:	HEA §484(d)(4), as amended by the Higher Education Opportunity Act (HEOA), P.L. 110-315; DCL GEN-08-12/FP-08-10.
Policy Information:	1124/159
Guarantor Comments:	None.

Definition of Independent Student
The *Common Manual* has been updated to incorporate changes made to the definition of “independent student” that were included in the College Cost Reduction and Access Act (CCRAA) of 2007 and further clarified through the Higher Education Opportunity Act (HEOA). Although the specific HEOA changes are not effective until July 1, 2010, the 2009-2010 *Free Application for Federal Student Aid* (FAFSA) has already been updated to reflect the changes. As a result, the *Common Manual* is being updated to reflect the HEOA clarifications.

The independent student criteria related to a student who is an orphan or ward of the court has been revised by including reference to foster care, and clarifying that if the student was an orphan, a ward of the court, or in foster care at any time when the student was 13 years of age or older, the student is considered an independent student.

The Manual is also revised to include two new criteria for determining a student's dependency status as independent. The first criterion states that if a 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, the student is considered independent.

The second criterion states that if 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, the student is considered independent. 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 and 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.

Affected Sections:	6.8	Determining the Student's Dependency Status
Effective Date:	For dependency determinations beginning with the 2009-2010 award year.	
Basis:	HEA §480(d)(1), as amended by the College Cost Reduction and Access Act (CCRAA) of 2007, P.L. 110-84 and the Higher Education Opportunity Act (HEOA), P.L. 110-315; DCL GEN-08-01; DCL GEN-08-12; 2009-2010 *Free Application for Federal Student Aid* (FAFSA).	
Policy Information:	1125/159	
Guarantor Comments:	None.	

Use of Professional Judgment in Certifying Unsubsidized Stafford Loans
The *Common Manual* has been revised to include the new professional judgment authority for an FAA to certify an unsubsidized Stafford loan for a dependent student if the student's parent(s) has ended financial support and refuses to complete the parental section of the FAFSA, as provided through the Higher Education Opportunity Act (HEOA). In this situation, financial support includes not only payment of

educational costs, but also other cash or non-cash support, such as room and/or board. This professional judgment authority is not the same as the dependency override provision contained in Section 480(d)(1)(I) of the Higher Education Act of 1965, as amended (HEA). Prior Department guidance has specifically stated that the refusal of a parent to support a student and to complete the FAFSA is not, by itself, sufficient grounds for a dependency override.

If the FAA uses this authority, the dependent student is only eligible to receive an unsubsidized Stafford loan and not any other Title IV assistance. The maximum unsubsidized Stafford annual loan amount that a dependent student may receive under the new authority is the “base” limit applicable to the student's grade level plus the additional unsubsidized amount of $2,000.

Also, the 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 policy also states that before an FAA can exercise professional judgment to certify an unsubsidized Stafford loan for a dependent student based on these circumstances, the FAA must verify that the parent(s) has ended 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 stating 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.

Finally, the policy also states that if the student's parent(s) will not provide the required verification statement, the FAA must obtain documentation from a third party (e.g., a teacher, counselor, clergy member, or court) describing the student's relationship with his or her parents prior to certifying the unsubsidized Stafford loan. In addition, the FAA may, but is not required to, determine how the student intends to support himself or herself financially without parental support.

Affected Sections:	6.8	Dependency Overrides
	6.15.B	Stafford Loan Certification
Effective Date:	Loans certified for loan periods that begin on or after August 14, 2008, or include that date.	
Basis:	HEA §479(a), as amended by the Higher Education Opportunity Act (HEOA), P.L. 110-315; DCL GEN-08-12/FP-08-10; private letter guidance from Jeff Baker received on March 25, 2009.	
Policy Information:	1126/159	
Guarantor Comments:	None.	

Pre-repayment Disclosures

The *Common Manual* has been revised to include the lender disclosure requirements related to the new income-based repayment plan. In addition to providing a borrower information on existing repayment plans, a lender is also required to provide, at the time it offers repayment options, a notice to a borrower (except a parent PLUS loan borrower or a Consolidation loan borrower whose loan includes one or more parent PLUS loans) of the availability of the income-based repayment plan. The notice must provide the process by which the borrower may qualify for the income-based repayment and must advise the borrower where and how to obtain more information on the income-based repayment plan.

Affected Sections:	10.7	Disclosing Repayment Terms

Effective Date: Disclosures made on or after July 1, 2009.
Basis: §428(b)(9), as amended by the Higher Education Opportunity Act (HEOA), P.L. 110-315; §682.205(h); DCL GEN-08-12/FP-08-10.
Policy Information: 1128/159
Guarantor Comments: None.

Lender Disclosures during Repayment
The *Common Manual* is being revised by adding information regarding new disclosures a lender must provide to a borrower during the repayment period. A lender must provide a borrower in repayment with 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 the borrower has paid in interest on the loan.
- The aggregate amount the borrower has paid on the loan, including all the interest and fees paid, and the amount paid against the 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 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.

The *Common Manual* is also being updated to include the requirement that, if the borrower notifies the lender that he or she is having difficulty making scheduled payments, the lender must provide to the borrower a description of each of the following:

- The repayment plans available to the borrower and how the borrower can request a change in repayment plan.
- The requirements for obtaining a forbearance on the loan, including the associated costs.
- The other options available to the borrower to avoid default, including any associated costs or fees.

Affected Sections: Chapter 10 Loan Servicing
Effective Date: Required lender disclosures made for loans with first payments due on or after July 1, 2009.
Basis: HEA §433(e)(1) and (2), as amended by the Higher Education Opportunity Act (HEOA), P.L. 110-315; DCL GEN-08-12/FP-08-10.
Policy Information: 1129/159
Guarantor Comments: None.

Disclosure When Granting Deferments on Unsubsidized Stafford Loans
The *Common Manual* has been revised to state that when granting an in-school, graduate fellowship, unemployment, military or economic hardship deferment on an unsubsidized Stafford loan, a lender must provide information to the borrower to assist him or her in understanding the impact of the capitalization of interest on the borrower’s loan principal and the total amount of interest to be paid over the life of the loan.
Affected Sections: 11.1 Authorized Deferment
Effective Date: In-school, graduate fellowship, unemployment, military, and economic hardship deferments on unsubsidized Stafford loans granted on or after August 14, 2008.
Basis: HEA §428(b)(1)(Y)(iii) as amended by the Higher Education Opportunity

	Act (HEOA), P.L. 110-315; DCL GEN-08-12/FP 08-10.	
Policy Information:	1130/159	
Guarantor Comments:	None.	

Providing Forbearance Information to the Borrower or Endorser

The *Common Manual* has been revised to require the lender to send a notice to the borrower or endorser, as applicable, when it grants a forbearance to assist the borrower or endorser in understanding the effect that interest capitalization has on the loan's principal balance and the amount of interest that may be paid over the life of the loan. Revised policy also requires the lender to contact the borrower or endorser not less than every 180 days during the forbearance period and include in its notice each of the following new data elements in addition to existing requirements:

- The amount of interest accrued since the last interest accrual information was provided to the borrower.
- The amount of interest that will be capitalized on the loan and the date that the capitalization will occur.
- The option to pay the interest before it is capitalized.

Affected Sections:	11.20.I	Borrower Contact during Forbearance
	11.23	Mandatory Administrative Forbearance
	11.24.B	Internship or Residency
Effective Date:	Forbearance granted by the lender on or after August 14, 2008.	
Basis:	HEA §428(c)(3), as amended by the Higher Education Opportunity Act (HEOA), P.L. 110-315; DCL GEN-08-12/FP-08-10.	
Policy Information:	1131/159	
Guarantor Comments:	None.	

Administrative Forbearance for Repayment Plan Change

The *Common Manual* has been revised to permit the lender to grant an administrative forbearance to cover a period of delinquency that exists at the time a borrower chooses a different repayment plan, for example, when the borrower changes from a standard repayment plan to an income-based repayment plan.

Affected Sections:	11.21	Administrative Forbearance
Effective Date:	Repayment plan changes granted by the lender on or after July 1, 2009.	
Basis:	§682.211(f)(14).	
Policy Information:	1132/159	
Guarantor Comments:	None.	

Total and Permanent Disability Discharge Requests Based on U.S. Department of Veterans Affairs Determinations

The *Common Manual* has been revised to add information about total and permanent disability discharge requests based on U.S. Department of Veterans Affairs (VA) determinations. A discharge request based on a VA determination has different eligibility criteria than one that is not based on a VA determination.

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 the appropriate sections 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. The borrower is not subject to the 3-year conditional period. If the Department grants a final discharge based on a VA determination, it will notify the loan holder of the determination. Any loan payments made after the effective date of the VA determination (that the borrower is unemployable due to a service-connected condition) are refunded to the borrower.

Affected Sections:	13.8.G Total and Permanent Disability
Effective Date:	Total and permanent disability discharge requests received by the lender on or after August 14, 2008, that are based on U.S. Department of Veterans Affairs determinations.
Basis:	HEA §437(a), as amended by the Higher Education Opportunity Act (HEOA), P.L. 110-315; DCL GEN-08-12/FP 08-10; Discharge Application: Total and Permanent Disability published February 9, 2009.
Policy Information:	1133/159
Guarantor Comments:	None.

Eligible Not-for-Profit Holder

The *Common Manual* has been updated with regulatory guidance published in the *Federal Register* Vol. 73, No. 206, dated October 23, 2008, as it relates to the definition of "eligible not-for-profit holder." An eligible not-for-profit holder is an eligible lender that requests special allowance payments from the Department and that meets one of the qualifying conditions. To qualify as an eligible not-for-profit holder, a state or nonprofit entity must have made or acquired a FFELP loan on or before September 27, 2007.

An eligible lender trustee (ELT) may be designated as an eligible not-for-profit holder if acting 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, that was the sole beneficial owner of a loan eligible for special allowance payments on September 27, 2007. Subsection A.2.A of the Manual has been updated to include definitions of "state or nonprofit entity" and "special purpose entity" (including "related 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 that state 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 non-profit entity and that the Department considers reliable.

A lender cannot be designated as an eligible not-for-profit holder if the lender (directly or through an ELT or a special purpose entity) 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 related 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.

- 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 committee or compensation committee.

- 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 such decisions is not likely to affect the integrity of those decisions.

A lender (directly or through an ELT or a special purpose entity) cannot be designated as an eligible not-for-profit holder if the lender is not the sole owner of the beneficial interest in, and the income from a loan. Subsection A.2.A of the Manual is being updated to include definitions of “beneficial owner” (including “beneficial ownership” and “owner of a beneficial interest”) and “sole owner”.

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 this 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 non-profit entity has not lost its eligibility due to the change.

The definition of “eligible not-for-profit holder” contained in Appendix G of the Manual has also been updated with related changes.

Affected Sections:	A.2.A	Special Allowance and Excess Interest Rates
	Appendix G	
Effective Date:	July 1, 2009.	
Basis:	§682.302(f)(3).	
Policy Information:	1134/159	
Guarantor Comments:	None.	