COMMON MANUAL

Unified Student Loan Policy

Summary of Changes Approved October 2006

This summary lists changes made since the 2006 Annual Update of the *Common Manual* was printed. Changes made before the 2006 Annual Update was printed are shown in appendix H of the manual.

Common Manual Section	Description of Change	Effective Date/Triggering Event	#
Chapter 4: School Participation			
4.1.A Establishing Eligibility 4.1.C Maintaining Eligibility	Clarifies that, in order to establish or maintain eligibility, schools must submit requests for approval to participate in the Title IV programs and report changes to its current participation agreement to the Department electronically, using the Application for Approval to Participate in Federal Student Financial Aid Programs (E-App).	Applications for recertification, reinstatement, or changes in ownership submitted by the school on or after the publication date of the 1998-1999 *Federal Student Aid Handbook*. Applications for reporting changes to a current approval submitted by the school on or after the publication date of the 1999-2000 *Federal Student Aid Handbook*. Applications for initial certification submitted by the school on or after the publication date of the 2000-2001 *Federal Student Aid Handbook*.	903/134
Chapter 10: Loan Servicing			
10.11.E Applying Funds Returned by the School	Clarifies that, if a lender deducted the federal default fee (or guarantee fee), or origination fee from the borrower's loan proceeds, the lender must reduce the fee proportionate to the amount of returned loan funds that a lender receives from a school.	Federal Stafford and PLUS loans guaranteed on or after July 1, 2006.	906/134
Chapter 15: Federal Consolidation Loans			
15.2 Borrower Eligibility and Underlying Loan Holder Requirements 15.3.C Reviewing the Loan Verification Certificate	Revised policy allows a borrower to seek consolidation with any consolidation lender, even if the borrower's loans are held by one holder.	Federal Consolidation loan applications received by the lender on or after June 15, 2006.	904/134
Chapter 16: Cohort Default Rates and Appeals			
16.1 Overview of Cohort Default Rates and Terminology	Adds information regarding the electronic process that the Department uses to notify schools of draft and official cohort default rates.	Domestic school's receipt of draft and of official cohort default rate notifications on or after June 1, 2005.	905/134
Appendix B: PLUS/SLS Refinancing			
B.2 Option 2: Refinancing to Secure a Variable Interest Rate	Clarifies that neither the guarantor nor the lender may charge a borrower a federal default fee (formerly guarantee fee) for refinancing loans to secure a variable interest rate.	Federal Stafford and PLUS loans guaranteed on or after July 1, 2006.	906/134
B.2 Option 2: Refinancing to Secure a Variable Interest Rate B.3 Option 3: Refinancing by Obtaining a New Loan	Adds the statutory limitations that define which loans may be refinanced for the purpose of changing a fixed-rate PLUS or SLS Loan to a variable-rate loan.	PLUS or SLS loans first disbursed prior to July 1, 1987.	907/134

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 licensing requirements.
- Guarantor policies, procedures, and requirements.
- Accrediting agency requirements.
- All other related requirements for schools, as specified in the Higher Education Act of 1965, as amended.

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

4.1 Institutional Eligibility

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

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

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 ~~a~~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)]
- The school must include in the ~~application for determination~~ 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:[1]
  - 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)]

1. Policy 903 (Batch 134), approved October 19, 2006

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 2006-2007 *Federal Student Aid Handbook*, Volume 2, Chapter 7, pp. 2-127 to 2-132.

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

A school must report to the Department~~, in a manner specified by 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:[1]

- 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(e)]

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(c)]

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

1. Policy 903 (Batch 134), approved October 19, 2006

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 ~~application~~ E-App so that it is received by the Department no later than 10 business days after the change. The application must ~~contain~~ include the following documentation:
[§600.20(g)(1)][1]

- Any required and fully completed Department forms.
  [§600.20(g)(2)]
- Required documentation of state licensing approval.
  [§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 licensing approval, if not already provided.
  [§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)]

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

A change in governance for a public school is not considered to be a change of ownership that results in a change of 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. No later than 10 days after a change in governance, public schools must report the change to the Department and each applicable guarantor.
[§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

1. Policy 903 (Batch 134), approved October 19, 2006

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 ~~electronic application~~ E-App and other required documentation. Further information on these requirements can be found in 34 CFR 600.20 and in the 2006-2007 *Federal Student Aid Handbook,* Volume 2, Chapter 5, pp. 2-67 to 2-69. 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:[1]

- 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. [§600.20(c)(1)(v)]

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)]

1. Policy 903 (Batch 134), approved October 19, 2006

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, t~~T~~he lender must reduce the ~~guarantee~~ fee(s) ~~and origination fee~~ 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 ~~is~~ not ~~required to~~ 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 ~~guarantee and origination~~ fees.
[§682.202(c)(7) and (d)(4)][1]

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.

1. Policy 906 (Batch 134), approved October 19, 2006

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	Pre 7/1/93 Borrower[8]	New Borrower 7/1/93[9]
SCH	In-School: Full Time	None	•	•	•	•	•	•	•	•	•
	In-School: Half Time[7]	None		•	•			•	•	•	•
EDU	Graduate Fellowship	None	•	•	•	•	•	•	•	•	•
	Rehabilitation Training	None	•	•	•	•	•	•	•	•	•
	Teacher Shortage	3 Years		•							
	Internship/ Residency Training	2 years	•	•		•					
TDIS	Temporary Total Disability[3]	3 Years	•	•		•	•	•		•	
PUB	Armed Forces or Public Health Services[4]	3 Years	•	•		•					
	National Oceanic and Atmospheric Administration Corps[4]	3 Years		•							
	Peace Corps, ACTION Program and Tax-Exempt Organization Volunteer	3 Years	•	•		•					
UNEM	Unemployment	2 years	•	•		•	•	•		•	
	Unemployment	3 Years			•				•		•
PLWM	Parental Leave[5]	6 Months	•	•							
	Mother Entering/Reentering Work Force	1 Year		•							
HRD	Economic Hardship	3 Years			•				•		•
PLUS[6]	In-School: Full Time	None						•			
	In-School: Half Time	None						•			
	Rehabilitation Training	None				•	•	•			

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 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.

4 Borrowers are eligible for a combined maximum of 3 years of deferment for service in NOAA, PHS, and Armed Forces.

5 A parental leave deferment may be granted to a borrower in periods of no more than 6 months each time the borrower qualifies.

6 Deferment for parent borrower during which the dependent student for whom the parent obtained a PLUS loan meets the deferment eligibility requirements.

7 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.

8 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.

9 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.

- ~~If a borrower has FFELP loans held by multiple lenders,~~ A borrower may request 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.
  [HEA 428C(b)(1)(A); §682.102(d); §682.201(c)(1)(iv)(B)(1)]

- ~~A borrower whose FFELP loans are held by a single lender must request consolidation from that lender. A borrower who requests consolidation from a lender that is not the borrower's sole FFELP loan holder must certify one of the following:~~

  - ~~That the borrower sought and was unable to obtain a Federal Consolidation loan through the holder of the borrower's FFELP loans.~~

  - ~~That the holder declined to provide a Consolidation loan to the borrower with an income-sensitive repayment schedule.~~
    ~~[HEA 428C(b); §682.102(d); §682.201(c)(2)(iii)]~~[1]

- 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, 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.

Obtaining a Subsequent Consolidation Loan

A borrower who currently has either a Federal or 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 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.
  [HEA 428C(a)(3) and (a)(4); §682.201(d)(2) and (3)]

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's consolidation loan holder has requested default aversion assistance from the guarantor, and the borrower is seeking an income-contingent repayment schedule.
[HEA 428C(a)(3)(B)(l)]

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(d)(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[2]).

- FDLP loans (Stafford, PLUS, and Consolidation loans[1]).

- FISL loans.

- Perkins Loans.

1. Policy 904 (Batch 134), approved October 19, 2006

2. A borrower may not reconsolidate a single Consolidation loan.

- 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 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]

Additional circumstances that may prevent a holder from completing the LVC include those in which:

- There is a judgment against the borrower on the loan for which the borrower has requested consolidation.

- The loan has been sold.

- The loan is more than 270 days past due and a default claim has been submitted to the guarantor.

- ~~The holder believes that it is the single holder of the borrower's FFELP loans and that the borrower does not qualify for consolidation with the consolidating lender.~~

If the holder is unable to certify the LVC due to one of these additional circumstances, the reason should be included on the LVC and the holder should return the LVC, or other written explanation, to the consolidating lender within 10 business days of the loan holder's receipt of the LVC.

~~If the holder is unable to certify the LVC because the holder believes that it is the single holder of all the borrower's FFELP loans, thereby asserting that the borrower does not qualify for consolidation with the consolidating lender, the holder must provide written notification to the consolidating lender and provide documentation supporting the single holder assertion (see section 15.2 for more information on this single holder provision). The supporting documentation may include National Student Loan Data System (NSLDS) records or a statement from the guarantor indicating the single holder status. It is not the borrower's responsibility to demonstrate to the loan holder that multiple lenders hold his or her FFELP loans.~~
[§682.209(j); DCL FP-04-02][1]

15.3.D
Calculating the Interest Rate

Interest rates applicable to Consolidation loans are listed in the table on the following page.

1. Policy 904 (Batch 134), approved October 19, 2006

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 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 FFELP or FDLP eligibility and may also become ineligible to participate in the Federal Pell Grant Program.

Some historically black colleges and universities (HBCUs), and tribally controlled and Navajo community colleges, may 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. For more information on these exemptions, contact the Department's Default Management Division. (See Common Manual appendix D.)

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 (subpart M of 34 CFR 668) and the Department's *Cohort Default Rate Guide*, and are also outlined in sections 15.3 and 15.4 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. [*Cohort Default Rate Guide*][1]

- *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. 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)]

1. Policy 905 (Batch 134), approved October 19, 2006

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 chapter, it must identify for its eligible PLUS and SLS borrowers another lender that does (to the extent practicable).

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

B.1
Option 1: Refinancing to Secure a Combined Payment

At a borrower's request, the lender may combine into a single repayment schedule all of the borrower's PLUS loans—or all of a borrower's SLS loans—that are held by the lender and guaranteed by the same guarantor. Because deferment eligibility provisions for PLUS and SLS loans differ, the lender is prohibited from refinancing PLUS and SLS loans together to obtain a single repayment schedule. [§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)][1]

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

1. Policy 907 (Batch 134), approved October 19, 2006

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 borrower is not charged~~ a federal default fee (formerly guarantee fee), nor may the lender deduct the fee from the borrower's loan proceeds ~~for refinancing loans under Option 2~~. However, the lender may opt to charge a borrower whose PLUS or SLS loans are refinanced under Option 2 an administrative fee of up to $100. Only one such administrative fee may be charged on each refinancing transaction. If the lender charges an administrative fee for refinancing under Option 2, the lender must collect the fee from the borrower up front—the lender cannot capitalize the fee. Also, when advising the borrower of the advantages of refinancing his or her loans under Option 2, the lender must subtract this fee from any cost savings the borrower may realize during the repayment period.
[§682.202(e); §682.209(e)][1]

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(e) and (f)(1)][2]

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.

1. Policy 906 (Batch 134), approved October 19, 2006

2. Policy 907 (Batch 134), approved October 19, 2006